

AMCO

# FINANCIAL TIMES



**Mobile phones**  
Just how big are the health risks?

Technology, Page 11



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**Hollywood**  
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Neighbours' strife threatens revival

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World Business Newspaper

TUESDAY JULY 16 1996

## OECD sees high jobless levels for next two years

Unemployment in the world's main industrialised countries will stay high for two more years at least, the Organisation for Economic Co-operation and Development forecast. Growing pay inequalities, especially in the US and the UK, will lead to "more marginalisation" of people, the OECD said. Page 18

**Coca-Cola** showed few ill effects from rival PepsiCo's \$500m campaign to grab some of its market when it reported a 20 per cent rise in earnings per share in the second quarter. Page 19; Lex, Page 18

**Utter rift** widens at Westminster: Differences between Britain's two main political parties over their approach to Northern Ireland widened as the opposition Labour party expressed dismay at the government's refusal to condemn Unionist politicians for last week's Orange march which led to widespread violence. Page 18

**Lloyd's** of London insurance market won an overwhelming endorsement for crucial parts of its recovery plan. Special levies on underwriting members will contribute £440m (£660m) towards financing of the recovery package. Page 6

**Spain facing bankruptcy:** Bankruptcy proceedings have been opened for the Spain holding company and other subsidiaries of the group Germany's second biggest computer retailer. Earlier this month the group sought protection from creditors in *Verbleich* proceedings similar to US Chapter 11 rules. Page 19

**Blom moves** on company reforms: Quoted German companies would be able to buy back up to 10 per cent of their capital and stock options would be available to senior executives under legislation being drawn up in Bonn. Page 18; Editorial Comment, Page 17

**80 die** in Hindu stampede: Sixty Hindu worshippers were killed and scores injured in dawn stampedes in India as they gathered to celebrate a new-moon festival. Page 5

**Siemens** shrugs off slowdown: German electronics company Siemens announced an 18 per cent rise in third-quarter net profits despite a decline in domestic business. Page 19; Lex, Page 18

**Sudanese refugees** butchered: More than 90 refugees from Sudan's civil war have been slaughtered by the *Amudamat* Lord's Resistance Army at a camp near the northern Ugandan town of Kitgum. Page 4

**Kobe Steel**, Japanese steel and construction equipment manufacturer, is to spend \$35m to boost production of hydraulic excavators in China from 50 to 700 units a year by 2000. Page 4

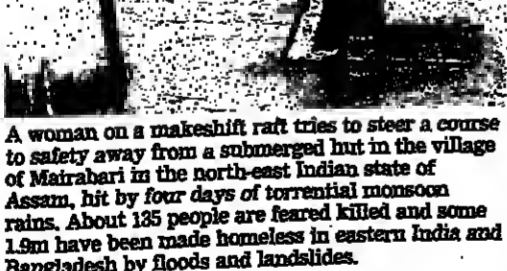
**Beijing** push to back Pyongyang: North Korea is to receive new economic and political support from China in an effort by Beijing to protect the troubled Pyongyang government from possible collapse. Page 5

**Reliance** industries, India's biggest textiles and petrochemicals group, claims it has a sound defence against criminal charges of illegal share switching and substitution of company shares to certain shareholders. Page 5

**Heracles** crash kills 26: At least 26 people, including all four crew, were killed when a Belgian Hercules C-130 military cargo aircraft crashed at Eindhoven airport in the southern Netherlands.

**Royal** decrees: The Prince and Princess of Wales were granted a decree nisi in a short hearing at the High Court in London. Unless either party appeals, the decree can be declared absolute in six weeks and a day.

**135** feared dead in monsoon floods:



A woman on a makeshift raft tries to steer a course to safety away from a submerged hut in the village of Matrabari in the north-east Indian state of Assam, hit by four days of torrential monsoon rains. About 125 people are feared killed and some 1.5m have been made homeless in eastern India and Bangladesh by floods and landslides.

Table with financial data including Stock Market Indices, US Lintner Rates, Other Rates, and North Sea Oil prices.

## Last-minute change prompts health fears ■ Chubais recalled as chief aide Yeltsin misses talks with Gore

By John Thornhill in Moscow

Russian president Boris Yeltsin yesterday increased his reputation for erratic behaviour and intensified concerns about his health when he called off a meeting with Mr Al Gore, the US vice-president, at the last minute.

Mr Gore's motorcade had been warning up to take him to the meeting when it was cancelled less than an hour before it was scheduled. The vice-president, in Moscow to lend support to the Russian reform effort, appeared disconcerted by the diplomatic snub and reacted testily to reporters' questions.

Mr Yeltsin's aides tried to dismiss the embarrassing incident by saying the exhausted president had decided to take a two-week working vacation at a Moscow sanatorium to recover his strength and would meet Mr Gore today.

Despite growing concerns about his capacity to complete a four-year term, Mr Yeltsin took steps yesterday to form a new team for his second administration. In an extraordinary move, he appointed Mr Anatoly Chubais, the leading reformer sacked in the November presidential election, as his chief of staff.

Mr Yeltsin's staff played down fears that he had suffered a further relapse in health after a gruelling re-election campaign but said he would have a medical examination. "If any medical procedures are necessary, doctors will make them," the president's press secretary said.

Mr Thomas Pickering, the US ambassador, attempted to smooth over the affair. "I've been in Russia a long time. I've learned to



US vice-president Al Gore with Russian prime minister Victor Chernomyrdin in Moscow yesterday

expect that things change here," he said. "I wouldn't read anything unusual into this."

Mr Yeltsin, 65, has developed a reputation for unpredictability after appearing to be drunk in public on several occasions and failing to disembark from his aircraft to greet the Irish prime minister in 1994.

Since being resoundingly re-elected on July 3, Mr Yeltsin has only been seen in carefully tailored television footage, which has shown him to be stiff and hesitant in speech. But he has

recovered from previous health problems with remarkable vigour and appears to be summoning his strength for his inauguration on August 9.

In the run-up to the presidential elections, Mr Yeltsin dismissed Mr Chubais as first deputy prime minister in charge of the economy, blaming him for the social hardship that has accompanied Russia's transformation to a market economy.

But Mr Chubais played a vital role in organising Mr Yeltsin's re-election campaign and

needed impetus to the reform agenda. Mr Chubais replaces the headline Mr Nikolai Yegorov, who was one of the chief advocates of using force to crush Chubais's independence bid.

The concerns over Mr Yeltsin's health overshadowed a series of meetings in Moscow yesterday between senior US and Russian officials. But the two sides are expected to announce a package of initiatives today to promote investment in Russia.

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## Europe vows to act on US anti-Cuba law

EU foreign ministers agree possible reprisals as Clinton urged to suspend key clause

By Lionel Barber in Brussels

The European Union last night vowed to retaliate against the US unless President Bill Clinton suspended a key provision in the anti-Cuba Helms-Burton Act.

Mr Clinton has until midnight tonight to decide whether to suspend Title III of the act, which allows US citizens to sue companies "trafficking" in confiscated Cuban property.

The EU's response would be swift if Mr Clinton did not waive the provision. Mr Jacques Santer, president of the European Commission, warned.

EU foreign ministers in Brussels agreed a list of possible reprisals, including visa restrictions, an appeal to the World Trade Organisation's dispute settlement body and steps to neutralise the effects of the act outside the US.

They also agreed to set up a list of US companies seeking damages against European groups.

Mr Santer said he did not expect Mr Clinton - under pressure from domestic opponents of the Cuban regime ahead of the November presidential election - to exercise his waiver. However, Mr Clinton was also facing pressure from domestic business groups opposed to the act.

Sir Leon Brittan, EU trade commissioner, yesterday repeated appeals to Mr Clinton to waive the parts of the act targeting European companies. But he added: "I don't see this as a crisis or a trade war but as the identification of measures to protect the EU against unjustified extraterritorial legislation."

EU foreign ministers said last night diplomats would make "the necessary preparations for urgent

Community and co-ordinated national action" if Mr Clinton failed to respond to Europe's appeals.

But despite widespread irritation, the mood in Brussels was to contain the row. "This is a rift, not a crisis," said Mr Malcolm Rifkind, UK foreign secretary.

Britain is pressing its EU partners to adopt legislation similar to its own 1980 Protection of Trading Interests Act. This protects British companies against punitive damages awarded in the US courts, allowing companies to counter-sue in courts in Europe, but this provision has never been invoked. Canada has a similar law.

Another option is to ask the WTO dispute panel for a ruling on the US law. But some officials believe the US might call the EU's bluff and invoke the WTO's

national security exemption. "We think this would be a reflection of US weakness, but we are prepared for it happening," said one official.

Individual member states could also invoke visa restrictions against US nationals, but British officials said they were reluctant to employ coyote tactics which were provocative and disproportionate. Last week, the US announced that nine executives and directors of Sherritt International, the Canadian mining group, would be barred from entering the US from late August under Title IV, another provision of the act.

US removes sanctions, Page 4  
UK beef ban not lifted, Page 14

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## Doubts grow as erratic Dole fails to cut Clinton poll lead

By Jurak Martin in Washington

Mr Bob Dole is in trouble. His apparent inability to get across a consistent message in the race for the White House is prompting his campaign and prompting some Republicans to be openly doubtful that he can catch US president Bill Clinton.

An erratic and often inarticulate campaigning style has drawn Mr Dole into controversies ranging from abortion to tobacco, and strained his relationship with black Americans. Leaving the Senate last month was meant to improve his popularity, but the deficit appears to be growing.

The latest national opinion poll for MSNBC, released in association with yesterday's launch of the cable news venture between Microsoft and NBC, found the president's lead rising and his approval rating constantly respectable.

Mr Clinton led Mr Dole by 54 per cent to 30 per cent, 7 points more than a comparable survey for NBC last month. A 54 per cent majority approved of the way the president was doing his job, a figure consistent with most other surveys.

The poll suggested that Mr Dole would fare even worse if Mr Ross Perot of the Reform party was in the race. The entry of Mr Perot, the 1992 independent candidate, is now more likely given his virtual declaration last week.

Mr Dole had appeared to be narrowing the gap to the 15-point range two or three weeks ago when Mr Clinton was bedevilled by Whitewater and related problems, such as the controversial acquisition in 1993-94 by the White House of FBI personal files.

The latest prominent Republican to criticise Mr Dole was Senator Al D'Amato of New York in

a newspaper interview yesterday. Mr D'Amato, a co-chairman of the Dole campaign, echoed retired General Colin Powell in lamenting the "unique lost opportunity" of the candidate's refusal to address the annual convention of the National Association for the Advancement of Colored People last week. Mr Dole subsequently invited further criticism by claiming that he was being "set up" by the NAACP, the oldest black civil rights organisation.

Mr Clinton's speech to the NAACP last Wednesday was rapturously received.

Mr Dole's message this week is intended to be about education. But he finds it difficult to stick to a focused script and is forever being sidetracked into controversial off-the-cuff remarks.

Meanwhile Mr Clinton, a superior campaigner in any case, has the luxury of a united Democratic party behind him.

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Schroders advertisement with logo, text 'Excellence in China transactions', and contact information for British Sugar (Overseas) Ltd. and Schroders (Shanghai) Financial Advisory Co., Ltd.

# Germans urged to take a risk for jobs

Andrew Fisher on attempts to bring about a radical change in investment mentality

Germans must be tired of hearing how they dislike taking risks, but politicians are increasingly repeating this message as it becomes clear that only a radical change in the country's investment mentality is likely to cure its economic weaknesses.

With unemployment stuck at around 10m people, the need to channel funds into areas that create growth, jobs and profit has become increasingly apparent.

Germans are starting to understand that job growth only occurs in smaller companies, says a Frankfurt banker. "It does not happen through some new recipe at the big companies."

crat-Christian Social (CDU-CSU) alliance which dominates the governing coalition. "It is embedded in the whole debate about *Standort Deutschland* (Germany as an industrial location)."

Thus, government plans to open up financial markets further and encourage risk capital through increased equity investment are tied in with concerns about jobs. "Statistics show that every job created by a start-up company creates four more elsewhere," Mr Repnik says.

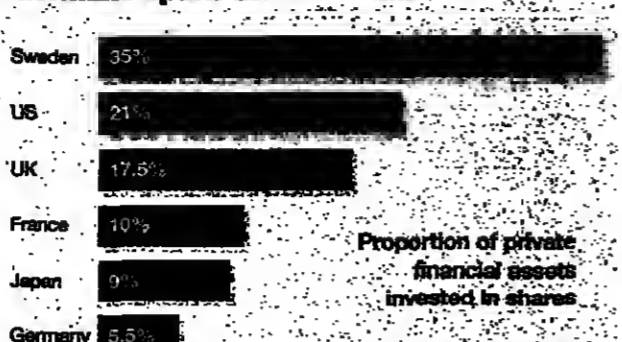
A broad range of draft laws and proposals under discussion will deal with further capital market reforms, special funds for private pension provision and ways of encouraging more equity and venture capital investment.

"Compared with other countries, we are way behind in terms of share ownership throughout the population," Mr Repnik adds.

Like many political colleagues, he sees the need for changes in financial markets - primarily to help smaller companies as essential to nourish future growth in jobs.

"Between 1980 and 1985, Germany's *Mittelstand* (medium-sized companies) had a net growth in jobs of around 1m, while the big companies showed a decline."

## Germans spurn the stock market



Together with moves to relax tight labour laws, encourage more part-time working, ease the social security financing burden and cut high tax rates, Mr Repnik hopes the encouragement of more risk capital to back new ideas will give the economy a powerful job-creating stimulus.

The whole subject of risk capital is viewed by the government as highly important, says Mr Johannes Ludwig, a state secretary at the economics ministry. "It is not seen as an isolated part of the economic landscape, but as part of an overall concept about how to create jobs and growth."

policies (by using money market funds for their own cash management and over-the-counter options). Property funds will be able to invest in property companies as well as properties.

Other legal changes. Minimum capital requirements for securities issuing houses will be cut to encourage specialisation, especially in smaller stocks. Special pension-oriented funds, with a strong emphasis on equities, are planned to encourage individuals to make more private provision. Further off, though widely discussed, are moves to promote Anglo-Saxon type pension funds - which invest heavily in equities for long-term returns - by putting them on the same tax footing as companies' internal pension reserves.

The main actions the government is proposing are: Changes to be included in the third Financial Markets Promotion Law, to take effect in 1998. The 30-year liability period for prospectus contents and investment advice will be reduced to around five years. Foreign language prospectuses will be permitted. Mutual funds will be allowed to issue closed-end funds and umbrella funds (funds-of-funds) and pursue more flexible investment

enough on their own to generate a big new wave of equity and venture capital investment. Investors, especially institutions, also have to become more equity-minded and a broader, more liquid, stock market created.

Thus, moves are under way to develop a new market for thriving, capital-hungry smaller companies. Deutsche Börse, which runs the Frankfurt stock and futures exchanges, will start this Neuer Markt next year. Ten companies - in the computer, multimedia, telecommunications and other sectors - are already keen to enter this market which will join similar operations in France and Belgium to form the EuroNM as a rival to Nasdaq, the US computer exchange.

Mr Ludwig welcomed Deutsche Börse's efforts to help finance small, technology-oriented businesses. But, recalling his student days in California, where academia and business overlapped, he said Germans were still too security-conscious and risk averse. "You can see this in the number of traffic lights per kilometre in Germany. Nowhere else are they so high, especially in the US."

# Greece drops veto on Turkish participation in aid programme

By Lionel Barber in Brussels

Greece yesterday lifted its long-standing veto on a multi-million dollar European Union financial aid programme to the southern Mediterranean and agreed to allow Turkey's participation.

The breakthrough came at a meeting of EU foreign ministers in Brussels. But the programme could still run into obstacles over Greece's dispute with Turkey regarding the sovereignty of the Imra Islets in the Aegean sea.

The outline deal does not address Greece's opposition to Turkish access to Ecu200m (\$250m) aid which is linked to last year's customs union with the EU - a sore point with the Ankara government.

The agreement is an early diplomatic victory for the Irish presidency which pressed the Greek government hard to drop its veto on the Media regulation on aid to 13 countries in North Africa and the southern Mediterranean.

The Media regulation includes a firm promise of \$900m aid for 1996, with programmes to be assessed from September. The EU has promised a further \$1.3bn for the years to 1999, but these sums have to be negotiated each year, and have been reduced from an earlier offer of \$5.8bn.

The 12 aid beneficiaries are Algeria, the Palestinian authority, Cyprus, Egypt, Israel, Jordan, Libya, Malta, Morocco, Syria, Tunisia, and Turkey.

Mr Theodore Pangalos, Greek foreign minister, announcing the gesture towards Ankara on Media yesterday, said it depended on Turkey "agreeing to international laws" as set out in a joint declaration issued by EU foreign ministers.

Mr Pangalos added that Mrs Tansu Ciller, former Turkish prime minister who is foreign minister in the new Islamic-led coalition government, would have to agree to the statement



UK foreign minister Malcolm Rifkind (right) and his Dutch counterpart Hans Van Mierlo in discussion before yesterday's meeting in Brussels

during her visit to Ireland later this week. "This declaration shows Turkey cannot get away with infringements of international law," he said.

However, EU officials played down the idea of conditions being attached to the Media agreement. The European Commission meanwhile rejected Greek efforts to tie its hands in the disbursement of Media funds to Turkey.

The Council declaration strikes a balanced posture in the EU's relations with Greece and Turkey. Referring to the

dispute over the Aegean islands over which the two countries almost came to blows, the statement says: "The Council recalls that relations between Turkey and the EU have to be based on a clear commitment to the principle of respect of international law and agreements, the relevant international practice, and the sovereignty and the territorial integrity of the Member States (EU) and Turkey. It considers that disputes should be settled solely on the basis of international law."

Mr Zhelev counter-attacked by charging that Mr Stoyanov's primary victory was the fruit of a "gigantic manipulation". He added that neither Mr Stoyanov, deputy chairman of the UDF, nor Mr Georgi Pirinski, the foreign minister and leading candidate for the governing Socialist party, had much to offer Bulgaria.

Mr Zhelev has long been at odds with the Socialist government over a range of policy questions. His now seems to be suggesting that the opposition could do little better, and offer-

ing himself as the alternative. Millions of ordinary Bulgarians, however, recently showed their enthusiasm for an older and more traditional form of government when the exiled king of Bulgaria returned for the first time in 50 years to a triumphant welcome.

Popular enthusiasm for the monarchy, largely the reverse side of the unpopularity of all political parties since the collapse of communism in 1989 and the failure of either the UDF or the Socialists to achieve a successful transfor-

# Competition key to telecom deal, says Van Miert

Mr Karel Van Miert, European competition commissioner, said yesterday that "effective competition" in the German and French telecommunications markets was a condition for clearing the Global One venture between France Telecom, Deutsche Telekom and BT of the US. Agencies report from Brussels.

Commission officials were yesterday indicating that Global One and the Atlas joint venture between France Telecom and Deutsche Telekom would be cleared by the Commission tomorrow with conditions attached.

"The Atlas/Global One alliance agreements raised some very serious concerns regarding their home markets in the relevant services where both operators were holding legal and *de facto* dominant positions," Mr Van Miert said.

One of the main conditions for us to give this joint venture the go-ahead under competition rules is that full implementation of the commitment to liberalise alternative infrastructure in both Germany and France is not only notified but actually effective - this means new licences granted and new players entering the market," he said.

Commission officials said yesterday's clearance will also include conditions on the separation of Atlas's activities from those of its parents, a ban on cross-subsidies with parents, and divestment of some activities.

In December, the Atlas alliance received clearance from the US Federal Communications Commission and US Justice Department subject to similar strictures designed to ensure liberalisation of French and German markets proceeded according to schedule.

The Commission will tomorrow approve the merger of Ciba-Geigy and Sandoz to form Novartis, the world's second-largest drugs group, Commission officials said. They said the Commission's inquiry into the merger had focused on aspects of the venture in the pharmaceutical, plant protection and animal health sectors, and that Ciba-Geigy and Sandoz had agreed to modify parts of the merger plans.

The Commission is tomorrow expected to clear the creation of Dutch venture Holland Media Group, a European Union official said. It ruled last September that the merger of Dutch-language television channels BTL and Veronica, plus Endemol Entertainment, the largest independent TV producer in the Netherlands, to form HMG had to be restructured to avoid contravening EU competition laws. Endemol has since withdrawn from HMG.

# Zhelev raises spectre of dictatorship in Bulgaria

By Anthony Robinson in London and agencies

President Zhelyu Zhelev of Bulgaria yesterday called for stronger presidential powers to head off demands for a return of dictatorship and popular discontent over growing economic hardship.

In an interview with Associated Press the president, a former anti-communist dissident, said presidential elections this year were unlikely to ease Bulgaria's woes if some power was not shifted from parliament to a stronger presidency.

"I am afraid of the irresponsibility of many politicians who obviously don't understand what can happen if things go on like this. I am afraid that in late autumn or winter many people might go on the streets. Then they would demand not a presidential republic, but even a dictatorship, because they are more used to this," he said.

In Plovdiv, Bulgaria's second city, leaders of the anti-communist Union of Democratic Forces (UDF), the main opposition group, yesterday accused Mr Zhelev of being consumed by bitterness after his recent defeat in the presidential primary elections.

The UDF used to support him but chose Mr Petar Stoyanov as its candidate in this autumn's elections. Powerful sections of the party have not forgiven the president for allowing the collapse of the first UDF government led by Mr Dimitri Filipov in 1992 after only a few months in power.

# Yeltsin recalls Chubais to the colours

By John Thornhill in Moscow



Anatoly Chubais: sudden change of mind

The return of Mr Anatoly Chubais to a powerful post in the Kremlin just six months after being ignominiously fired by President Boris Yeltsin is the latest in a series of extraordinary personnel changes among the presidential staff.

It is also perhaps the strongest signal to date that Mr Yeltsin is determined to brave political controversy and implement many of the bold economic and political reforms contained in his election manifesto.

Mr Chubais was saying as late as last week that he had no intention of returning to the political arena. That he has changed his mind so suddenly suggests he believes he has the

political support to make a difference.

The tall, sandy-haired Mr Chubais, standard bearer of Russia's market reforms and a leading figure in Mr Yeltsin's re-election team, inspires veneration and venom in almost equal measure among his countrymen.

His supporters praise him for masterminding Russia's mass privatisation programme, which has transformed the country's economy; his enemies accuse him of selling off the family silver for a song.

In his dual position as head of the presidential administration and chief presidential aide, Mr Chubais will play a vital role as Mr Yeltsin's gatekeeper, helping to set the political agenda and planning the implementation of his goals.

However, his full responsibilities are as yet undefined. His most immediate challenge will be to reinvent the role of the presidential administration, which in the past has duplicated and at times complicated the government's functions.

The presidential administration employs more than 1,000 staff helping to develop policy and supervise most areas of government activity. But its critics allege that it merely acts as another bureaucratic impediment to change.

In his previous post as first deputy prime minister in charge of the economy, Mr Chubais was the chief architect of Russia's stabilisation programme, proving to be the most competent administrator in a government notably short of such talents.

Those who have worked with him speak of his calm organisational skills, a prodigious appetite for work, and an extraordinary ability to navigate the shark-infested corridors of the Kremlin.

The head of an international financial institution in Moscow habitually referred to him as "a demigod" for the way he conducted the mass privatisation programme.

Mr Vladimir Lukin, a leading member of the liberal Yabloko movement, welcomed Mr Chubais's appointment, saying he was one of Russia's few democrats who had any administrative talent.

"Under Chubais the presidential headquarters will improve its performance, but Chubais will have to improve his negative image," he said.

## EUROPEAN NEWS DIGEST

# French drugs haul at Channel

French customs agents have seized 106kg of heroin, worth up to \$16m, at the entrance to the Channel Tunnel in France's biggest drugs haul in nearly 26 years.

A statement by the Budget Ministry, which is in charge of the customs police, said the heroin was discovered at the Channel port of Calais on board a high-speed train inside a British truck carrying bicycles, photographic equipment and laundry paper on July 11. A 40-year-old British truck driver was in custody, officials said. The heroin was discovered last Thursday but the ministry announced the seizure only yesterday at a press conference.

Officials said it was the biggest seizure of heroin since 1970, when an international drug smuggling ring based in Marseilles became known as the French Connection. In addition to the heroin, police said they discovered a quantity of cocaine, amphetamines, hashish and a chemical used to make drugs.

The announcement followed one from the other end of the tunnel last Friday, when British customs seized 120kg of the drug ecstasy during a routine check on a car arriving from Belgium and the Netherlands.

Three men from London were taken into custody. Earlier, French customs seized 400kg of cannabis on July 4 on board a coach registered in Spain and headed for Britain. The Spanish driver tried unsuccessfully to flee. On July 8, customs discovered 70kg of cannabis in a car driven by a Dutchman en route to 70km.

## Detained SNCF boss awaits fate

Mr Lolk Le Floch-Prigent is likely to have to wait until Thursday before knowing if he can continue as chairman of SNCF, the state-owned French railway company.

A Paris court yesterday put off until then a decision on an appeal by Mr Le Floch-Prigent against his detention in connection with an inquiry into investments made by Elf Aquitaine, the French oil giant, while he was chairman between 1989 and 1993.

Mr Bernard Pons, transport minister, indicated yesterday he would wait for this judgment before taking a decision on the SNCF chairmanship. "This great enterprise cannot remain without a boss at its head," he said. Mr Olivier Metzner, Mr Le Floch-Prigent's lawyer, said his client awaited the court's decision "with serenity".

## Swissair pilots agree salary cut

Swissair, Switzerland's national airline, has signed a new working agreement with its pilots which includes a no-strike clause and a reduction in their salaries by 5 per cent from July 1. The agreement is also expected to result in the number of flying hours per pilot rising by around a quarter to 800 a year.

If expected cost savings for Swissair of "at least SFr60m (\$68m)" do not materialise then the company says it will negotiate a further reduction of up to 6 per cent in pilots' salaries in 1997.

The long delayed introduction of the three-year agreement is the latest sign of the recovery in the fortunes of what used to be one of Europe's least efficient airlines.

The increase in flying hours for pilots will be managed, in part, by extending the geographic range of short-haul flights, and by increasing the maximum allowable duty time on long-haul flights. In return Swissair will guarantee jobs for a total of 950 of its pilots for the next three years. The reduction in the number of pilots as a result of the increase in efficiency will be achieved by the introduction of a mandatory retirement age of 55 and a temporary hiring freeze on new cockpit crew.

## Poles may balk at Nato costs

The overwhelming enthusiasm of Poles for the idea of joining Nato is likely to fade when confronted with the cost of membership, suggests an opinion poll published yesterday by CBOS, a publicly funded organisation.

According to CBOS 58 per cent of Poles believe that their country should delay membership until the "economic situation of the country improves to allow for the cost" if big outlays are required immediately to modernise the country's armed forces. A mere 23 per cent say that membership should be achieved at any cost. Such views could weaken Poland's quest for Nato membership, which was pursued by President Alexander Kwasniewski in a visit to the US last week. The Polish leader elicited a promise that decisions on a timetable for Polish membership would be announced in December at a Nato summit.

However, the move will have to be ratified by the US Congress where doubts are already being expressed on the cost of bringing Poland, the Czech Republic, Hungary and possibly Slovakia into Nato. According to a congressional Budget Office study published in March the outlays by both the existing members and the applicant countries would run to \$61bn over 15 years.

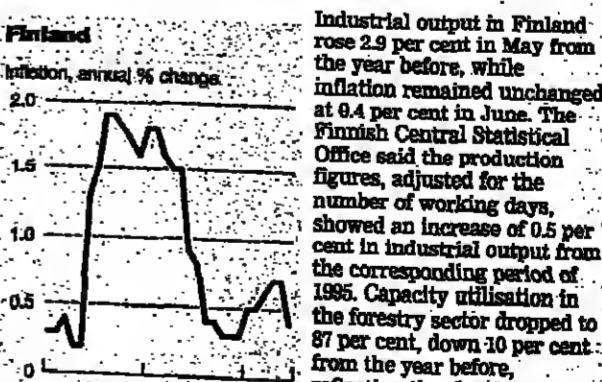
## Polish share measure overturned

Poland's constitutional tribunal has ruled illegal a Securities Commission measure forcing those having a 33 per cent stake in listed companies to give current shareholders the right to sell their shares to the buyer.

Mr Leszek Garlicki, head of a three-judge panel, said the measure "constitutes a legal norm adopted without legislative authorisation". The measure was opposed by Poland's Union of Brokers and Securities Analysts in March after Goodyear Tyre and Rubber agreed to raise its stake in the Polish tyre maker Debica to 50.7 per cent from 32.7 per cent. Goodyear did not invite other Debica shareholders to sell their stock to it, prompting the Securities Commission regulation on how certain points of the securities law should be interpreted.

## ECONOMIC WATCH

### Finland awaits the recovery



Industrial output in Finland rose 2.9 per cent in May from the year before, while inflation remained unchanged at 8.4 per cent in June. The Finnish Central Statistical Office said the production figures, adjusted for the number of working days, showed an increase of 0.5 per cent in industrial output from the corresponding period of 1995. Capacity utilisation in the forestry sector dropped to 87 per cent, down 10 per cent from the year before, reflecting the slowdown in the pulp and paper market. In manufacturing industry, capacity utilisation was 84.5 per cent, down 3 per cent. A 3 per cent drop was also noted in metal and engineering industry 82 per cent, underlying the continuing flatness of domestic demand. Rigorous fiscal policies - aimed at preparing the economy for eventual membership of the European Monetary Union - have hit consumer spending and employment.

Joblessness, now Finland's biggest economic problem, is 18 per cent. Spain's trade deficit widened to Pta269.3bn (\$2.1bn) in May after Pta245.3bn in April. Switzerland's seasonally adjusted trade deficit was revised to SFr94.2m (\$76.6m) in May from a previous SFr91.1m. Norway had a trade surplus of Nkr7.6bn (\$1.2bn), excluding ships and oil platforms, in June compared with a surplus of Nkr7.2bn in May.

Karadz party election

Argent

Radical to lead Mexican opposition

By Leslie Greenfield in Mexico City

# Karadzic's party faces election ban

By Lionel Barber in Brussels, Paul Wood in Sarajevo and Bruce Clark in London

The US official in charge of overseeing Bosnia's forthcoming elections warned the Bosnian Serbs yesterday that their main political party would be barred from the race unless Mr Radovan Karadzic had quit political life by Friday.

Mr Robert Frowick, head of the commission preparing the September 14 poll, set the deadline as Mr Richard Holbrooke, the architect of US Balkans policy, flew to the region with the overthrow of Mr Karadzic at the top of his agenda.

Mr Holbrooke, re-entering Balkans politics after six months as a Wall Street banker, is due to visit Belgrade, Zagreb and Sarajevo with a message that the US wants the elections to proceed - with Mr Karadzic well out of the way.

Earlier, Mr Frowick postponed until Friday the official opening of the election campaign, which was supposed to start on Sunday, and reaffirmed his view that no party led by an indicted war criminal - such as Mr Karadzic - should be allowed to compete.

"By definition, if this campaign starts on Friday, you can be sure that things must be straightened out by that date," he told a news conference.

Other western policy-makers in Bosnia, such as Mr Carl Bildt who is in charge of the civilian side of the peace process, have stopped short of endorsing Mr Frowick's insistence on banning the SDS, the Serb nationalist party, as long as Mr Karadzic remains its leader. But Mr Frowick will have the casting vote at a meeting of the electoral commission on Friday, so he will be able to overrule Mr Bildt's representative if necessary.

In Brussels yesterday, a meeting of European Union foreign ministers broke up without agreement on how to

remove Mr Karadzic and General Ratko Mladic from power. Mr Dick Spring, the Irish foreign minister who was chairing the meeting, said: "The question of how this is achieved should not be allowed to overshadow agreement on our objectives."

Earlier, British and French officials said a decision had to be taken in the next two to three weeks on how to deal with the two Bosnian Serb leaders. They said pressure to secure their removal was intensifying because of the need to neutralise their malign influence as long as possible before the poll.

Mr Malcolm Rifkind, UK foreign secretary, stressed that the UK had always supported bringing both men to justice before the International War Crimes Tribunal in the Hague which issued arrest warrants for them last week.

But Mr Rifkind distanced himself from French suggestions that a Nato-led commando raid to arrest the Bosnian Serb leaders might need a change in the UN Security Council mandate. He said it was a matter for Nato commanders on the ground who would have to assess the risk to Nato troops of taking on heavily armed guerrillas.

Western governments are aware that a commando operation against Mr Karadzic could have the perverse effect of boosting the fortunes of his SDS party. "For some strange reason, Karadzic is still very popular and his removal could strengthen the SDS by making a martyr," said one diplomat.

A Nato spokesman said it had grounded Bosnian government military aircraft after finding four anti-tank weapons and ammunition aboard a helicopter that should have been carrying passengers. Reuter reports from Sarajevo. The incident in the Muslim-controlled eastern town of Gorazde was a violation of a ban on weaponry outside storage sites.

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# Indian brewers aim to be toast of Russia

Mig jets roar overhead as a drinking revolution challenges vodka culture. Chrystia Freeland reports



Indian recipe for Russian beer

Vodka plays so central a role in Russian culture that the name of the nation's favourite alcohol is derived from *voda*, the word for water. But the Sun group, which has acquired the majority stake in five Russian breweries, is betting that as the country grows richer Russian drinkers will shift to the gentler pleasures of beer.

There is nothing revolutionary about Sun's belief that prosperity is likely to bring a switch from hard liquor to less alcoholic beverages, a pattern which is well-established in other parts of the world. But, at a time when the fear of a Communist presidential victory had temporarily scared off outsiders, the Sun group, founded and controlled by the Indian Khemka family, is one of the rare foreign companies with a long-term commitment to manufacturing in Russia.

Oil and other natural resources and high-profile sectors such as telecommunications are the usual favourites for outside investors, but the Khemkas, who have been doing business with Moscow since 1993, believe less glamorous sectors like food processing and light consumer goods are safer for foreigners, who

risk being swept away by the mounting wave of Russian nationalism.

"We decided we wanted to invest in something in Russia," explains Mr Shiv Khemka, who together with his father and brother forms the family troika which runs Sun. "Local friends in the government said oil and gas could be dangerous, so go for a local industry." But, in 1990, when Mr Khemka began an exhaustive tour of 140 breweries across Russia and eastern Europe, many seemed unlikely candidates for investment.

One of the worst was the Perm Brewery, a neglected stepchild in one of the most heavily militarised regions of what was then the Soviet Union. Located in the very centre of Russia, Perm was closed to foreigners until 1990 and 70 per cent of the local economy was devoted to military production. The legacy of that era is still visible today in the dramatic pattern which the Mig jets based in the city trace across the skyline every night.

However, in a typical Soviet pattern, heavy spending on the defence sector left few resources for producing consumer goods, and the Perm Brewery was one casualty of this policy. "It was the biggest

disaster I'd ever seen. There were rats running around. There were cats to kill the rats. There was mould hanging from the ceiling like vines," says Mr Khemka. But Sun's technical team, drawn from leading western brewers, said that the mould concealed a functional factory, so gradually Sun bought up a 76 per cent stake and the new owner has begun to turn the brewery around.

Today, the walls and floors gleam with fresh coats of brightly coloured paint and plants adorn the corridors. "It's like an orchard," says one employee. Even the city's bloated defence sector has proven to be an advantage: cash-strapped but highly qualified military plants have made some equipment for the brewery at 20 per cent of the market price.

Production is up by more than 30 per cent; the beer's shelf-life has been extended from five days to 90 days; beer produced at Perm and the four other Sun breweries have won 27 domestic quality awards over the past 18 months; and the Perm company is operating at a profit.

For Mr Sergei Mitrev, the former Soviet-era manager

who has been retained by Sun as general director, it has been a personal as well as a professional metamorphosis. "It was all black, there was dirt everywhere, Shiv covered up his eyes in shock," Mr Mitrev says of Sun's first encounter with the Perm plant.

Mr Mitrev's enthusiastic involvement is the result of one of the policies which has been most central to Sun's success in Russia: painstaking co-operation with the old Soviet-era management.

Some private owners have entered into open battles with the "red barons", but Sun, like many of Russia's most successful strategic investors, prefers to co-opt them. "We honour them, we make sure they are well off, we give them stock in our company," Mr Khemka says of the Soviet-era managers of the companies Sun has acquired. "All of our directors will become millionaires in dollar terms."

But Sun's effort to maintain a friendly relationship with the old bosses is tempered by an awareness of the pitfalls of the often savage world of Russian business can hold for outsiders. One of Mr Khemka's early efforts to buy a brewery went awry when the manager, who

had been advising Sun and urging it to do the deal, turned around at the last minute and bought the factory himself. At another plant, Sun found its 20 per cent stake diluted to 3 per cent by managerial sleight of hand. Every foreign investor active in Russia can tell dozens of similar stories.

At the Perm brewery, Sun has brought in a team of foreign accountants and established a separate company, Star Distribution, to sell the beer. "We have complete control of the financing of the company; earlier there was leakage," is Sun's delicate explanation of the step.

Perhaps one of the best signs that Sun has found a winning strategy for one of the world's most daunting markets is a strange new product on sale at the kiosks which line the streets of Perm. Viking, the premium beer which Sun is building into its flagship brand, is readily available, but some vendors are also offering "Viking Malt drink", a copy-cat brew made by zealous local entrepreneurs hoping to profit from Sun's growing reputation.

Sun's lawyers are seeking legal recourse, but its managers are delighted by this, the most sincere form of flattery.

OBITUARY: Jean Rudolf von Salis

# Historian and voice of reason in Hitler era

Jean Rudolf von Salis, who has died aged 96, would be remembered as a distinguished modern historian even if it had not been for the second world war.

Because of the war, this outspoken Swiss was also able to make history in a subtle way. Between 1940 and 1945, he was the only independent current affairs analyst broadcasting in the German language on the European continent.

In the spring of 1940, as the Germans were preparing to invade France, Marcel Pilet-Golaz, the Swiss president, approached von Salis, then a history professor at the Federal Technical Institute in Zurich, and asked him to do a weekly broadcast on current affairs for a Swiss radio programme called *Weichronik*.

The first broadcast went on on

April 30, less than two weeks before Hitler's panzers advanced into Belgium and Luxembourg. Because the transmitter was in Switzerland, the broadcasts could be picked up easily throughout the Third Reich. Within two months Germany's Nazi government began to complain about von Salis's perceptive analysis and outspoken views.

Swiss generals, terrified of a German invasion, demanded that he be censored, but Berno took the view that von Salis was speaking as a private citizen and not for the government. The government agreed to look at his scripts and insisted that he make no direct criticisms of foreign leaders. Also, no propaganda from foreign powers was to be used.

The Nazi protests continued, but so did the broadcasts, throughout the

war and beyond until 1947. Von Salis, who had worked as a correspondent for two Swiss newspapers in Paris during the early 1930s, got around the censors by using a devastating effect the technique of letting the devils condemn themselves. He would quote extracts from Nazi leaders' speeches and official declarations to make clear what was going on. For example, he detected immediately the meaning of Hitler's 1942 outburst against Jewish capitalism and Bolshevism and gave great prominence to the Führer's vow that Jews would never be able to destroy Aryanus but would themselves be destroyed.

Only when the war ended and the tributes poured in did the importance of the service provided by this incisive analyst become apparent. Von Salis recalled in his memoirs that

General Hans Speidel, who had been Rommel's chief-of-staff, told him: "I learned a lot from you." Von Salis protested that Speidel had known a lot more than he. "That is not true," he quotes Speidel replying.

A Czech resistance leader revealed after the war that he never immediately followed instructions from the Czech government in exile in London because he thought their assessments too optimistic. Instead, he would wait and listen to von Salis's weekly broadcast.

Von Salis grew up in Bern, the scion of a noble family from eastern Switzerland, and settled early on an academic career. He studied history at the universities of Montpellier, Bern, Berlin and Paris, returning to the Federal Technology Institute in Zurich as professor of history in 1935,

a position he held until his retirement in 1968.

His views on the future of Europe were widely sought by leading statesmen as the second world war came to an end, and were typically shrewd. He recalled telling Allen Dulles, Roosevelt's special emissary to Europe in June 1944, that Germany should be reconstructed in as decentralised a way as possible.

Of his many books, the most important was a three-volume modern world history, *Weltgeschichte der Neuesten Zeit*, published between 1951 and 1960. Of the Swiss government's determination to maintain a relatively large army after the end of the cold war, he observed in 1991: "The funny thing is, we don't even know whom we're defending ourselves against any more."

# Argentina's deficit missing IMF target

By Matthew Doman in Buenos Aires

Mr Domingo Cavallo, Argentina's economy minister, has conceded that this year's fiscal deficit will probably fall short of a target agreed with the International Monetary Fund by \$1bn.

In an interview in the financial daily *El Cronista* yesterday, Mr Cavallo, under fire from critics of tough new measures to tighten fiscal management, said the 1996 full year deficit was now likely to be \$3.8bn. He had already conceded that a poor first half performance would

make it impossible to meet a deficit target of \$2.5bn for the full year, agreed in negotiations with the IMF earlier this year.

Mr Cavallo on Friday reported an unexpectedly large fiscal deficit of \$2.51bn for the first six months of 1996. The government had been expecting a budget shortfall of \$1.47bn for the period, but a sluggish recovery from last year's deep recession continues to limit government revenues.

However, Mr Cavallo insisted his official forecast of 5 per cent economic

growth this year would be met, and would be followed by 6 per cent growth "in subsequent years".

Mr Cavallo, who must now renegotiate IMF support next month, on Friday unveiled a package of tax and spending measures he said would save \$2bn a year. The measures included an \$800m cut in family welfare subsidies and the abolition of a system where workers receive some of their wages in tax-free meal coupons. The abolition of the coupons is expected to save \$700m.

The move to cut deeper into welfare spending came just days after Argentina's Catholic bishops, in their annual message to the government, attacked the administration for failing to address the social costs of economic reform and the severe recession which hit the economy last year.

Along with the church, unions, community groups and congressional leaders have roundly criticised the new measures and some have pledged action to stall their implementation. The head of the CGT national council of trade unions, Mr Gerardo

Martinez, said the new measures would "break the social peace" and were a threat to co-operation between the government and unions on an important employment and training programme.

However, there is little prospect that the package can be blocked. The fiscal measures will be introduced under the so-called "superpowers" legislation - a bill approved this year enabling the economy minister to introduce some tax and spending changes without congressional approval.

# Radical to lead Mexican opposition

By Leslie Crawford in Mexico City

Mexico's Revolutionary Democratic Party (PRD), the main leftwing opposition, has elected a radical firebrand, Mr Andrés Manuel Lopez Obrador, as its new party leader.

Mr Lopez Obrador, the PRD leader in the oil-rich state of Tabasco, is likely to adopt a more combative stance against President Ernesto Zedillo's government on issues ranging from the privatisation of the petrochemical industry to electoral reform.

Mr Lopez Obrador shot to national fame a year ago with a noisy campaign to impeach Mr Roberto Madrazo, the ruling Institutional Revolutionary Party's governor in Tabasco. Mr Lopez Obrador lost the governorship race in 1994, and blames his defeat on the massive, undeclared funds spent by the ruling party to secure Mr Madrazo's victory.

Mr Lopez Obrador inherits a divided party which has lost much of its following because of endless bickering at the top. His detractors, however, say he is not the man to unite the PRD.

His taste for dramatic confrontation - organising a blockade of oil wells in Tabasco and leading protest marches to Mexico City - has made him a hero in the radical Mexican left, but has alienated the moderate wing of the party, represented by Mr Porfirio Muñoz Ledo, the outgoing party president.

# Budget squeeze helps to speed Brazilian sell-off

Jonathan Wheatley on federal and state programmes

Brazil's privatisation programme, often criticised for false starts, delays and poor management, seems to be speeding up.

Recent announcements from the communications ministry suggest that cellular and conventional telephone services may be passed to the private sector sooner than expected. Electricity generating companies and ports have been added to the programme. And more than half Brazil's 27 states are preparing to sell assets, mainly in electricity, banking and highways.

Part of the impetus comes from the government's frustration at its inability to force administrative, tax and social security reforms through congress. These are needed to help it balance its budget and keep inflation in check. But with progress stalled, the government is hoping to cut costs and boost industrial efficiency by giving off infrastructure to the private sector.

It is also increasing sales revenues by limiting the use of so-called "privatisation papers". These are government bonds which are accepted at face value in privatisation sales despite trading at big discounts. Of about \$12bn raised so far only about \$3.3bn has been in cash.

The urgency can be sensed throughout the country. Last week legislators in the northern state of Para passed a bill that would allow the state to sell any assets it sees fit. "Only 2 per cent of our reve-

nuces are available for investment," says Ms Rosyan Caldas Brito of Para's planning department. "We have to release funds to spend on health, education and other social services."

The federal programme started well enough at the beginning of the decade with the sale of the steel industry. What had been loss-making monoliths were shinned down and turned into well-managed and profitable operations. A string of petrochemicals companies followed.

But as Mr Ricardo Gamberotto of São Paulo consultant firm GDK points out, selling the steel and petrochemicals companies was the easy part. "Once the government has sold a self-contained company like a steel maker, it no longer needs to worry about it," he says. "But the electricity and telecommunications industries need much more regulation and supervision. When services are sold in the form of a concession for a fixed period, the government remains even more actively involved."

In some areas this process is reasonably straightforward. Concessions have already been awarded to run federal and state highways, and more should follow quickly. However, in electricity distribution, for example, where granting concessions means passing a monopoly from the public to the private sector, regulation is more important.

Preparations for a regulatory body for the electricity indus-

try are still at an early stage. Nevertheless, the government is pushing ahead. Two big electricity companies have already been sold, and more are likely because the companies' potential for growth was so great that investors were prepared to take the risk of future regulatory changes.

Mr Gamberotto says the government also had to move quickly to overcome resistance in Brazil's private sector. "A lot of very powerful conglomerates owe their positions to government contracts, and they have considerable interests in maintaining the status quo," he says. "The government had to go ahead to show the process is irreversible."

Optimism that the federal programme will continue to move quickly has been undermined by a change of management at the National Bank for Economic and Social Development (BNDES), which runs the privatisation programme.

A new planning minister, Mr Antonio Kandir, to whom the BNDES reports, is also taking a more aggressive stance than his predecessor. Perhaps optimistically, his first act as head of the privatisation programme was to announce last month that 21 ports, whose inefficiency is a big burden on industry, will be passed to the private sector within a year.

At the state level, São Paulo has the most ambitious plans. It hopes to sell electricity assets worth up to \$20bn, plus 22 highway concessions and other companies.

Brazil's privatisation plans: the main contenders

Company	Planned date	Estimated minimum price
Federal railway (SE section)	Sep 96	\$550m
Comins (Mines Gerais electricity) 25% stake	Oct 96	\$1,200m
CEP (Rio de Janeiro electricity) 25% stake	Oct 96	\$600m
CRF (Rio Grande do Sul telephone) 25% stake	Nov 96	n/a
Fluor (Rio de Janeiro state bank) CVRD (mining)	Dec 96	n/a
Ministry of federal colleges	Feb 97	\$5,000m
Federal cellular telephony (band A)	by Q1 97	n/a
Federal cellular telephony (band B)	by Q4 97	n/a
31 federal ports	by Q4 97	n/a
20 federal power telephony and two telecommunications	by Q4 97	\$3,600m
Federal conventional telephony	by Q4 98	n/a

Rio de Janeiro is preparing to sell an electricity company, Cel, in October; its state bank, Banerj, should follow in December, and then gas and transport companies and the Maracanã football stadium.

Rio Grande do Sul plans to break new ground by selling 35 per cent of its telephone company, the only state company outside the federally-controlled system, in November. Although the state will remain the majority shareholder, operational control will be handed to the buyer. It also plans to sell electricity assets. It says the sales will fund investments of \$5bn over the next five years.

Minas Gerais plans to sell a 32 per cent stake in its electric-

ity company, Cemig, in October. Its privatisation programme includes two banks. The BNDES is also in talks with 11 state governments on helping to prepare their assets for privatisation. Last week it agreed to buy deontures worth \$135m in Coelba, the Bahia state electricity company. Earlier it reached a similar deal worth \$24m with Rio Grande do Norte.

Mr Luiz Fernando Dorneles, a BNDES director responsible for assisting the state programmes, says at least nine smaller states are preparing to sell electricity companies. Not all will attract buyers; not all can go to market at once. But their cash-strapped owners will be racing to get there first.

# AMERICAN NEWS DIGEST

## Nasdaq probe close to end

A conclusion to the near two-year investigation by the US Department of Justice into market-makers in stocks quoted on the Nasdaq market is expected this week. A settlement between the department and around two dozen securities houses is likely to leave the firms relatively unscathed.

The investigation began after an academic study was published in May 1994 which suggested market-makers colluded to fix a wide spread between buying and selling prices so as to bolster their profits. The study prompted both the Justice Department investigation, aimed at alleged anti-trust behaviour by the market-makers, and a Securities and Exchange Commission review of the workings of the market and its self-regulatory role.

Although the department is expected to demand random taping of telephone calls by traders, and improved compliance, criminal proceedings are unlikely.

A conclusion to the SEC's inquiry is not expected until later in the summer, although the National Association of Securities Dealers, which operates the Nasdaq market, has acted to strengthen regulation. Maggie Urry, New York

## Peru widens share offer

The Peruvian government has backtracked on its decision to slash the allocation of Telefonía del Peru shares to small local investors. President Alberto Fujimori has announced the state will assign three-fifths of its remaining 5 per cent stake to satisfy unfulfilled domestic demand.

In what proved Latin America's largest equity offering for three years, huge international demand for shares in already-privatised Telefonía del Peru outstripped supply by five to one. When shares commenced trading at the NYSE on July 1, Peruvians who had been urged to buy through a popular capitalism programme found their allocation had been cut by more than half. Angry protests led by bankers and stockbrokers who had co-ordinated the local placement finally prevailed and the allocation has been raised to \$278m from \$148m. Sally Bowen, Lima

## Italian kidnapped in Colombia

An Italian construction company said yesterday one of its staff had been kidnapped in north-west Colombia. The company, Astaldi, said Mr Giuseppe Muselli, 54, had been seized on Sunday in an area where he was in charge of the site of a big hydroelectric dam project.

In Colombia, a local radio network said suspected leftist guerrillas abducted the Italian as he was driving through a rural area in Antioquia province, northwest of Medellín. Colombia has one of the highest kidnapping rates in the world. Guerrillas and criminals take ransoms, industrialists and even foreigners hostage for huge cash ransoms in order to finance their clandestine operations. No ransom demand has yet been received in the Astaldi case. Reuters, Rome

## Rights mission visits Mexico

The Mexican government yesterday welcomed a human rights mission of the Organisation of American States, which planned to examine a lingering rebellion in Chiapas and migrant issues in Baja California.

The Inter-American Commission on Human Rights also was to visit the western Pacific state of Guerrero, where a clandestine group claimed last month to have taken up arms against the government.

Delegates of the OAS commission arrived on Sunday for a 10-day visit. A foreign ministry statement said the group was warmly received and would be briefed by the government on human rights advances. AP, Mexico City

NEWS: INTERNATIONAL

# Run on provident funds hits Israeli shares

By Ilene Prusher in Jerusalem

Israeli shares plunged 3 per cent yesterday, continuing their two-week decline amid a deepening crisis in the country's provident funds industry. The decline also signals a growing caution among foreign investors uncertain about the direction of a new hardline government led by Mr Benjamin Netanyahu.

moving into high-yield bonds and short-term savings plans. Although early redemption of the provident funds carries a heavy 35 per cent penalty, medium and short-term interest rates of 17 per cent are looking more worthwhile and less risky.

Mr Ohad Argaman, a trader for Oppenheimer, the US investment company, said the market was hit by a herd mentality. "There's a lot of bad publicity now about people getting out of the funds, and no one wants to be stupid and be

the last one there." An official at Bank HaPoalim estimates that of the \$154bn in public financial assets in Israel 40 per cent is held in provident funds.

In Tel Aviv, the benchmark Mismantim index fell 5.57 points or 3.03 per cent to 173.16, while the Maof fell 3.29 per cent to 189.38, helped downward by recent falls on Wall Street.

The decline made for a sour homecoming for Mr Netanyahu. He returned to Israel from the US to find the market falling in spite of his promises

of privatisation and budgetary restraint. Earlier this month, his cabinet approved plans to cut Shk4.9bn (\$1.5bn) from its 1997 budget and to reduce the deficit as a percentage of GDP to 1.5 by the year 2001, from an estimated 2.8 per cent in 1997.

But traders said those policies would take time to implement, and would only go so far in soothing investors' concerns about interest rates and political stability. The finance ministry said the new government had not yet formulated any solution to the provident funds

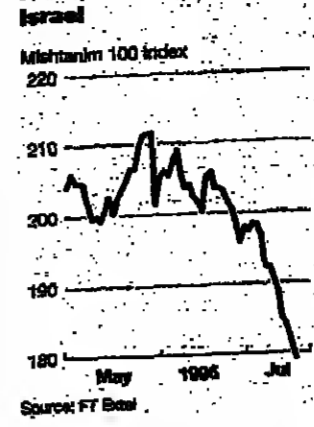
problem. Market analysts blamed high interest rates as the source of the crisis, pointing to an overnight lending rate of 17 per cent, from 13.3 per cent last September.

Now, investors are searching for signs that the central bank will reduce interest rates at the end of the month. After the market's ninth day of decline, the leader of Israel's Manufacturing Association urged the central bank to lower its key lending rate by 3 per cent.

Some form of an interest rate cut looked more likely after

markets closed. June's consumer price index was announced as 0.7 per cent, compared with 1.7 per cent in May, providing evidence that a slowing economy might warrant an interest rate decrease. The CPI was expected to fall between 0.7 and 1.0 per cent.

Doubts about prospects for the Middle East are exacerbating the mix, said Ms Hannah Pr-Zan, vice-president of Bank HaPoalim. "When foreign investors recognised that the peace process is ongoing, they came here with their money."



And now they're sitting on the fence and waiting to see what will happen," she said.

## Uganda rebels slay 90 refugees

By Michele Wrong in Nairobi

More than 90 refugees who fled the civil war in Sudan have been slaughtered in northern Uganda by the Lord's Resistance Army (LRA). They are the latest victims of the increasingly brutal conflict between the fundamentalist Christian rebel group and Uganda's army.

Aid officials in Nairobi said that the rebels attacked a 16,000-strong refugee camp, run by the United Nations High Commissioner for Refugees, 40km from the northern town of Kitgum, on Friday and on Saturday nights.

They are reported to have burned shelters and cars, destroyed food storage bases and killed indiscriminately. "People were killed right through the night," said Ms Michel Quintaglie, spokeswoman for the UN's World Food Programme. "These people fled the fighting in Sudan and now they've been killed in Uganda. It shows there is nowhere safe left in that region."

Northern Uganda has been the scene of recent intense fighting between the army and the LRA. Both have dramatically stepped up operations in the region since a brief ceasefire during May's presidential elections.

Earlier this week the rebel movement launched a two-pronged drive south, sending 500 men from their camps in southern Sudan across the border into Uganda to advance on the town of Gulu, while another 300 aimed for Kitgum. The deployment appears to be in retaliation for the army's success in pushing the rebels back to southern Sudan last month.

Led by former Catholic choirboy Mr Joseph Kony and promising to rule Uganda according to the Bible's 10 commandments, the LRA has been fighting the Kampala government for the last nine years, feeding on local resentment at the administration's neglect of the under-developed north.

## World 'heads for grotesque inequalities'

By Khozem Merchant in Tokyo

The world has 358 billionaires and their combined assets exceed the total annual income of the world's 2.3bn poorest people - 45 per cent of the global population.

The figures illustrate the yawning gap between rich and poor in an increasingly polarised world, says Dr Richard Jolly, author of the United Nations Development Programme's 1996 Human Development Report, to be launched in Tokyo tomorrow. If it continues, the rich-poor divide - at individual and country level - will produce a world "gargantuan in its excesses and grotesque in its human and economic inequalities".

This year's report takes as its theme human development in economic growth. Based on case studies of 26 countries, it draws a "bitter-sweet" conclusion, says Dr Jolly, special adviser to UNDP administrator Mr James Gustave Speth.

The good news is that the report's key barometer - the human development index, a "quality of life" indicator - has improved in most regions over the past three decades, with Canada topping the league, followed by the US, Japan, Netherlands and Norway.

The UK is 16th, ahead of Ger-

many, which is in 18th place. Since 1980 15 countries have enjoyed spectacular growth - including China, Thailand, Botswana and Mauritius - bringing rising incomes to their Latin citizens.

The bad news is that economic decline has affected 100 countries, home to 1.6bn people, a quarter of the world's population. Eighty-nine states were worse off in income terms than a decade ago; 35 have suffered a deeper fall in per capita income than that seen in the 1930s.

Dr Jolly said primary responsibility should lie with individual countries, but global action too, with the UN and the multilateral lenders at the forefront. Measures should include debt relief, more focused use of aid and better access to export markets.

Globalisation, Dr Jolly said, presented unprecedented opportunities for developing economies. The danger of ignoring this challenge would be further marginalisation of many poor economies.

The Uruguay Round of trade liberalisation was expected to produce global benefits of \$200bn a year, but, warns the report, it would do nothing for people and countries not engaged in the global economy.

## Rich countries ponder how much the 20 poorest can be expected to pay back

### Deciding a debt the poor can afford

Paris Club will try to decide how much debt to 'forgive', write Graham Bowley and Robert Chote

In the heart of the French Treasury building overlooking the River Seine an elite club of officials from 18 of the world's richest nations will gather this week.

Their deliberations could determine the economic destinies of up to 20 of the world's poorest countries - and, with them, the reputations of the World Bank and the International Monetary Fund.

On the agenda of the so-called Paris Club is its contribution to the contentious initiative on poor country debt at present being put together by the IMF and the World Bank.

The Paris Club, which quietly celebrated its 40th anniversary this year, shuns publicity, yet its role has been central to the stability of the world's financial system during the debt crises of the past four decades.

Since 1966, when it first tackled Argentina's debt problems, the club has acted as debt collector for the world's biggest creditor nations. With the large debt crises of the 1980s behind it and the biggest deal in its history - the restructuring of Russia's \$38bn debts - successfully completed earlier this year, the Paris Club's role looked set to diminish.

However, the aim of the initiative this week is for govern-

ment, commercial and multilateral creditors to reduce the debts of the poor countries to "sustainable" levels. To a considerable extent the fate of the plan now rests in the hands of the Paris Club - since the World Bank and the IMF are reluctant to press on with it until the Paris Club has committed its resources.

Under shrewd French chairmanship, the multinational group of government officials has at its regular meetings managed to steer steadily and successfully more than 72 countries - involving about \$319bn in debt - from default back to participation in the world financial community.

This has been achieved either by rescheduling debt or interest repayments or, in some cases, "forgiving" certain proportions of the debt.

The Paris Club's negotiating terms have gone through several incarnations. In the first deals, debtor countries were required to pay all their loans back. But when it was recognised this was impossible for some poor countries, gradually larger proportions of debt were forgiven.

According to Mr Christian Noyer, president of the Paris Club: "There was no sense in rescheduling the same debt over and over again. It was better for the security of creditors



Noyer: finding countries a path back to growth

to accept from time to time debt reductions. It was the only way to let a country have a way back to economic growth and development."

This week it will ponder calls to allow even greater debt forgiveness than the two-thirds of debts incurred by a poor country up to a given cut-off date - the "Naples terms".

With the World Bank and IMF's initiative expected to cost up to \$7.7bn, the issue at stake is one of burden sharing. At their Lyons summit, the

Group of Seven leading industrial nations discomfited the World Bank by recommending that it commit \$2bn to the initiative. The financing of the IMF's contribution has meanwhile become entangled in an acrimonious and almost theological discussion about the status of its gold reserves.

In Lyons, the G7 urged that "the Paris Club countries, where they deem appropriate, on a case by case basis, go beyond the Naples terms for these countries" - a statement

regarded by many as unclear.

Some countries such as the UK have recommended that the Paris Club go as high as 80 per cent on debt forgiveness in certain cases. But also at issue is whether the present cut-off date for eligible debt be extended - so greatly widening the amount of debt to which the write-off terms are applied.

The World Bank and the IMF need a successful conclusion to the initiative. Both face intense scrutiny from budget-conscious governments and high-profile campaigning groups, such as Oxfam and Christian Aid.

World Bank officials would like to see the meeting this week agree roughly what share of the costs the Paris Club will pick up and to ask its secretariat to draw up a menu of options as to how its help might be delivered.

But these are hopes rather than expectations. Other debt negotiations - for Congo and Peru - are on the table and officials fear the Paris Club may not feel that it is under sufficient pressure to take the necessary big decisions.

With the club not meeting again until the autumn, that could leave the initiative in limbo until the eve of the IMF and World Bank annual meetings in early October. While the proposed changes to the Paris Club's terms may seem huge now, the impetus for poor countries' debt relief may be lost, and the change made even more difficult, if the decision is postponed until the autumn.

Editorial Comment, Page 17

NEWS: WORLD TRADE

## US removes sanctions in hormones row

By Guy de Jonquieres

The US yesterday removed punitive sanctions on European exports worth about \$100m a year imposed in the late 1980s in retaliation against a European Union ban on hormones.

The decision was seen as a tactical move, intended to strengthen an attempt by the US and several other countries to have the hormone ban declared illegal by the World Trade Organisation.

The WTO agreed in May to set up a dispute panel to investigate a US complaint that the EU ban violated world trade rules. The panel has six months in which to reach a decision.

The EU responded by lodging a counter-complaint, arguing that the US had acted illegally when it retaliated by doubling tariffs on European exports such as meat, poultry, soluble coffee, pet food and alcoholic drinks.

The European Commission yesterday requested a 24-hour suspension of the disputes settlement meeting hearing its complaint, while it sought official confirmation of the US move. Officials said removal of the US sanctions made it less

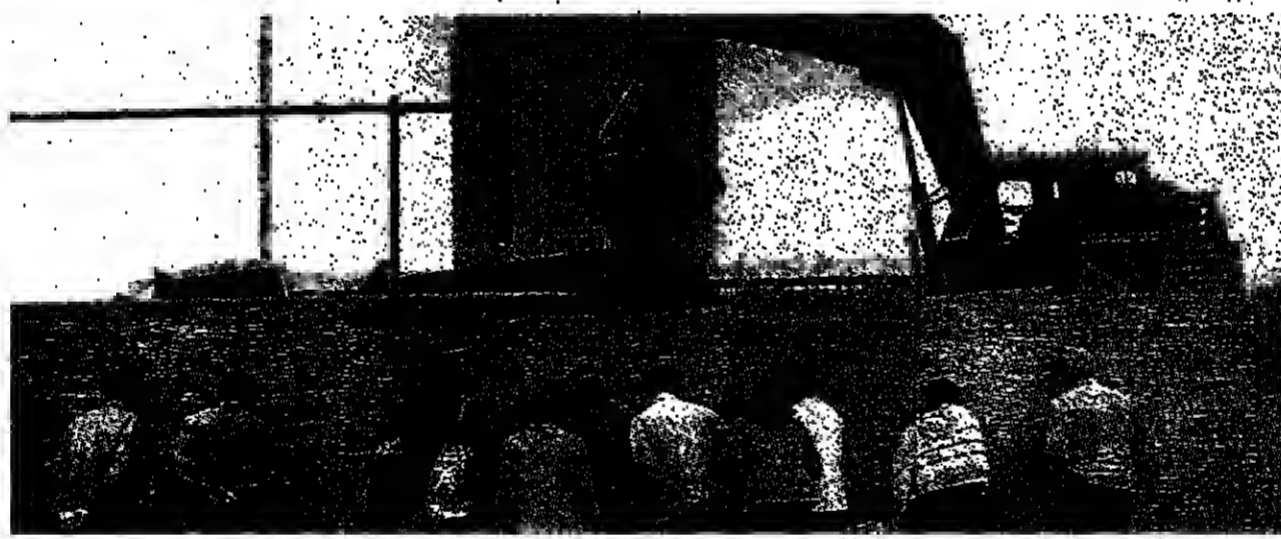
likely that it would pursue its complaint. However, Brussels might decide to push ahead, to try to obtain compensation for lost exports and to challenge the legality of Section 301 of the US trade law, the controversial provision under which the sanctions were imposed.

Though the volumes of trade involved in the hormones case are relatively small, it is one of the politically most highly-charged trade rows brought to the WTO's new tough disputes settlement procedures.

The EU has dug in solidly behind the ban, which it says is essential to avoid damaging consumer confidence in beef. If the WTO ruled the measure illegal, it could create a political furor in the EU and strain relations with the trade body.

The hormone ban covers beef produced in the EU as well as imported. The US, backed by Australia, Canada and New Zealand, argues that it is illegal because it does not comply with a WTO requirement that such measures be backed by clear scientific evidence.

The EU has produced no such evidence in support of its case, and the European Commission's scientific advisers say there is no proof that addition of hormones to beef endangers human health.



Eying the building boom: an excavator at work on a site in south-west China attracts the attention of passers-by

## Japanese group responds to growth in China's infrastructure spending

### Kobe to boost digger production

By William Dawkins in Tokyo

Kobe Steel, the Japanese steel and construction equipment manufacturer, yesterday announced a \$33m plan to boost its production of hydraulic excavators in China from 50 to 700 units a year by the end of the decade.

The expansion, a response to the fast rise in infrastructure spending to support China's industrialisation, will take place at Chengdu in Sichuan Province, where Kobe launched a joint venture, Chengdu Kobelco, two years ago.

This is the latest in a series of recent advances by Japanese industrial manufacturers with

joint ventures in China. Last week Hino Motors announced it would start producing truck engines there in 1998, and two months ago Toyota, Japan's largest car group, said it had received official approval to make car engines.

Kobe started making hydraulic equipment in China relatively early. In 1984, and this expansion is seen by the group as a vindication of a venture at first thought risky, Chengdu Kobelco was the first alliance between Japanese and Chinese construction equipment groups. Since then, several competitors have launched joint ventures including Komatsu and Hitachi of Japan, South Korea's Hyundai, Ceter-

pillar of the US and Leibherr of Germany.

China's ministry of machinery industry forecasts that annual demand for hydraulic excavators will double to 20,000 by the end of the year. Chengdu Kobelco would have a 3.5 per cent share of this, with expected turnover of \$65m.

By that time, the Chinese government aims to satisfy the country's entire demand for hydraulic excavators from onshore plants, including joint ventures with foreign companies. Currently, Chinese-only companies supply 30 per cent of demand. Most of the remaining 70 per cent is imported and local joint venture production is on a small scale.

Currently, Chengdu Kobelco's main markets are in China's south-west and north-west, but in future the Three Gorges dam project in south China, and construction projects in Beijing and Shanghai to generate the fastest growth in demand.

The Chengdu Kobelco plant will increase its workforce from 40 to 180 by 2000. Kobe Steel owns 40 per cent of Chengdu Kobelco, 45 per cent is held by Chengdu Engineering Machinery of China and the remaining 15 per cent is equally divided between two Kobe affiliates and Itochu Corporation, the Japanese trading company.

WORLD TRADE NEWS DIGEST

## Airbus lands big order from GE

Airbus Industrie, the four-country European aircraft manufacturing consortium, has won an order for 45 aircraft and 45 options from General Electric Capital Aviation Services, the leasing arm of General Electric of the US.

This is the first time Gecas has bought aircraft from Airbus, which is owned by Aerospatiale of France, Daimler-Benz Aerospace of Germany, British Aerospace and Casa of Spain. In January Gecas placed a \$4bn order with Boeing of the US for 107 aircraft.

Gecas has placed 40 firm orders and 40 options for single-aisle aircraft from the A319, A320 and A321 family. It has also placed five orders and five options for long-range four-engine A340-300s. All the aircraft will be powered by CFM56 engines, produced by a joint venture between GE and Snecma of France.

The order follows the announcement by Airbus that it had won 143 firm orders during the first six months of this year - more than it received during the whole of 1995.

Airbus made a significant breakthrough earlier this year when it won an order from China for 30 of its A320s and three A340s. The order nearly doubled Airbus's market share in China, previously dominated by Boeing, the world's biggest aircraft maker. Michael Skapinker, Aerospace Correspondent

## Dutch offer telecoms licences

The Dutch government yesterday invited applications for licences to build and run cable-based telecommunications networks, which for the first time will provide competition for KPN, the privatised utility in fixed line services. Two national licences and as many as 1,300 regional concessions are on offer.

A consortium grouping British Telecommunications with NS Telecom, an offshoot of the Dutch national railways, is one strong contender. Domestic energy companies are also in the running.

KPN, already under challenge from rivals in sectors such as mobile phone services, is acting to protect its position ahead of full liberalisation of the industry in 1998. Last week Casema, a KPN subsidiary which is the country's biggest cable television operator, announced plans for a trial phone service.

Applications for national licences will be judged on infrastructure quality and the speed with which it could be installed. Applications close on September 9 and winners will be chosen by December. Gordon Crabb, Amsterdam

## Ramco signs Azeri oil field deal

Ramco, the Scotland-based energy company, has signed an alliance agreement with Schlumberger, the Franco-American oil service company, to manage the proposed development of the giant Muradhanli offshore oil field in Azerbaijan.

The field, discovered during the Soviet era, is 120km south west of Baku. Muradhanli is estimated to contain more than 1m barrels of light, low sulphur oil, but the reservoir's complex geology hampered earlier development efforts by Socar, the Azeri state oil company.

Ramco, a partner in the International consortium developing three offshore fields in Azerbaijan, hopes to sign a joint venture agreement on the field's development with Socar within the next few months.

Final agreement has been held up by negotiations on the present tax regime for offshore fields, which is less generous than that offered to investors in offshore projects in the Caspian Sea. Robert Corzine, London

## Apec urged to lead way on liberalising trade

By Bethan Hutton in Christchurch

The Asia Pacific Economic Co-operation forum (Apec) should lead the way in moving world trade liberalisation forward, but must also extend its initiatives beyond member states, according to Mr Renato Ruggiero, director general of the World Trade Organisation.

Speaking at a meeting of Apec trade ministers in Christchurch, New Zealand, yesterday, he warned that "without such a convergence, we risk fragmentation of the global economy into two, three or

four preferential regional blocs, each one with its own rules and procedures, confronting each other at the border".

Apec's 18 members account for 38 per cent of the world's population, 54 per cent of its gross domestic product and 45 per cent of its trade. Mr Ruggiero said that the contribution of Apec member states towards tearing down trade barriers was vital to the success of the WTO's first ministerial meeting in Singapore in December.

After meeting Mr Wu Yi, China's minister of foreign trade and economic co-operation, Mr Ruggiero said China

ICO, the mobile telecoms group, yesterday urged the US regulatory authorities to ensure non-discriminatory treatment for all mobile satellite services operators seeking to provide domestic and international services in the US, writes Alan Cane.

The only non-US owned competitor in a race to mount the first satellite-based handheld mobile telephone service, it argued that its tentative US moves to distinguish between US and non-US operators was misguided and could reduce competition to the detriment of US customers and business.

would attend the December meeting as an observer.

The trade ministers spent much of the day discussing the Singapore meeting and were urged to speed up progress on outstanding issues so the December gathering could be

forward-looking rather than concentrating on existing commitments.

The US delegation used the Apec forum to push its plan for an information technology accord leading to zero tariffs for computers and telecommu-

nications products by 2000. The proposal for an ITA has gained support from several countries, but Apec members have been less forthcoming in responding to Washington's request that they present improved offers to free their telecoms markets as part of negotiations due to conclude by February 1997.

The US is also trying to add labour standard issues to the Singapore agenda, but is meeting considerable resistance.

US and Japanese officials held further talks aimed at resolving the semiconductor issue before the expiry of their existing bilateral agreement on

July 31. The US wants a new transitional agreement to maintain its chip producers' share of the Japanese market, but the Japanese say there is no need for a new pact.

Ms Charlene Barshefsky, the US trade representative, described Monday's meeting as constructive, and Mr Shunpei Tsukubara, the Japanese trade minister, said the gap between the two sides was narrowing.

However, another Japanese official said that the new US proposal had been disappointing. Japanese negotiators plan to present an updated plan today.

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# Beijing moves to bolster N Korea with aid offer

By John Burton in Seoul

North Korea is to receive new economic and political support from China in an effort by Beijing to protect the troubled Pyongyang government from possible collapse.

In the past week, China has announced measures to repair its ties with North Korea and restore relations to the days when they were "as close as lips and teeth".

The policy reflects a new assertive role by China on the Korean peninsula, which historically has been seen by Beijing as within China's sphere of influence.

China offers of aid to North Korea could undercut attempts by US and South Korea to force Pyongyang to negotiate a peace treaty formally to end the 1950-53 Korean war, while raising questions about China's support for the talks proposed by Washington and Seoul.

The US and South Korea agreed at the weekend not to provide more economic aid to North Korea until it accepted the proposed four-party talks involving the two Koreas, the US and China.

Beijing will provide 100,000 tonnes of food aid to alleviate growing shortages in North Korea after floods destroyed crops last year. This follows a donation of 10,000 tonnes of rice and a similar amount of corn.

A Chinese naval flotilla will visit the North Korean port of Chongjin this week, believed to be the first such gesture by the Chinese navy, to celebrate the 35th anniversary of their mutual aid treaty.

More importantly, China is considering resuming supplying goods to North Korea at "friendship" or subsidised prices. China scrapped the practice in the early 1990s, instead demanding cash payments at international market rates from North Korea, which is suffering a foreign exchange shortage.

"China wants to keep the status quo on the Korean peninsula and prevent North Korea's absorption by South Korea," Mr Michael Evers, editor of the Seoul-based North Korea Report, said. "It wants to prevent hungry North Korea refugees fleeing into China." Ties between Pyongyang and Beijing cooled after China established diplomatic relations with South Korea in 1992.

Beijing officials have privately criticised North Korea for its inability to introduce market reforms. In response, Mr Kim Jong-il, the de facto North Korean leader, described the Chinese as "opportunistic betrayers of socialism".

China's rapprochement with North Korea may also reflect a policy to play off Seoul against Pyongyang in an attempt to increase Beijing's influence on the Korean peninsula.



Kim Jong U, foreground, vice-chairman of North Korea's overseas economic affairs council and a leading economic reformer, making a plea to South Korean and Japanese businessmen at a seminar in Tokyo yesterday for foreign investment to revive the country's troubled economy.

Beijing's relations with Seoul have recently hit a rough patch despite the millions of dollars South Korean companies are investing in China.

China recently cancelled a state-sponsored Sino-Korean passenger jet project. The two nations are also disputing fishing rights in the Yellow Sea. North Korea has played a similar

diplomatic game between the China and Taiwan to gain Beijing's attention. Pyongyang is encouraging ties with Taiwan, which is considering offering \$7m aid to North Korea.

At a seminar held in Tokyo this week, North Korea also appealed for business investment from Japan and other countries.

Mr Lakhubhai Patil, a London-based businessman and the trial's plaintiff, alleged Mr Rao had been party to defrauding him of \$100,000. Two others accused in the case, including controversial "god man" Chandrasekhar, had been refused bail and are in detention. Mr Rao's lawyers are expected to appeal for the summons to be quashed.

## ASIA-PACIFIC NEWS DIGEST

# Parliamentary apology to Rao

Mr Indrajit Gupta, India's home minister, was forced to apologise in parliament yesterday for suggesting it would be "improbable" for Mr P.V. Narasimha Rao to carry on as leader of the Congress party after his recent summons before a Delhi court in a fraud case.

Congress leaders had claimed the remarks represented "interference" in the party's affairs and threatened to withdraw their backing for the 13-party coalition government, a move which would risk causing it to fall. Mr Gupta's apology after a 45-minute harangue appeared to calm the latest squall to beset the five-week-old government. "We are satisfied," said Mr Santosh Mohan Dev, Congress chief whip.

Meanwhile, the Delhi high court turned down a private petition calling for Mr Rao to be arrested without bail after his summons to answer charges in the swindling trial on July 21. Mr Lakhubhai Patil, a London-based businessman and the trial's plaintiff, alleged Mr Rao had been party to defrauding him of \$100,000. Two others accused in the case, including controversial "god man" Chandrasekhar, had been refused bail and are in detention. Mr Rao's lawyers are expected to appeal for the summons to be quashed.

## HK people 'face visa problems'

Hong Kong people face a battle to persuade Europe to grant them visa-free entry after the British colony is handed back to China next year. Governor Chris Patten, said yesterday. "I have to say that there's quite a bill for us to climb in Europe," Mr Patten said as he returned from meeting Mr Jacques Santer, the European Commission president, in Brussels.

Britain, which hands sovereignty of the colony of 6.2m people to China on June 30 next year, is pressing European nations to give Hong Kong residents visa-free access after the territory becomes a Special Administrative Region (SAR) of China. Hong Kong people now hold various local documents, including limited British overseas passports that allow visa-free entry into many countries. After the 1997 handover, the new Hong Kong authorities will issue SAR passports to eligible citizens. But few countries apart from Britain have said they would recognise the SAR passport and allow visa-free entry.

## Japan's industry output up 2.7%

Japanese industrial output rose 2.7 per cent in the year to May, slightly up on the preliminary estimate of 2.3 per cent, according to the Ministry of International Trade and Industry.

The upward revision is large enough to have affected Japan's industrial growth rate for the second quarter to June, when output rose by a final 1.5 per cent, year-on-year, against the preliminary estimate of 1.2 per cent. Industrial production rose by 0.5 per cent from the previous three months, rather than the initially estimated 0.3 per cent.

The Rev Jesse Jackson, the US civil rights leader, today begins three days of meetings with senior executives in Tokyo, to lobby for improved business and human rights treatment of minority groups in the US. His visit follows a class action in April by US employees of Mitsubishi Motors, alleging sexual harassment and discrimination.

## China's 'economic soft landing'

China's official Xinhua news agency yesterday hailed a "successful soft landing" for the Chinese economy in the first half of 1996, as Mr Dai Xiaogang, the governor of China's central bank, hinted at a further rate cut later this year. Inflation was 7.1 per cent, year-on-year, for the January to June period, and Mr Dai said he expected inflation to be below 9 per cent for the year. GDP growth for 1996 is likely to be between 9-10 per cent, he predicted. He said Beijing would continue with its tight monetary policy, but if inflation stabilised or continued to fall, interest rates would be cut. Mr Dai also raised the prospect of a reduction in bank reserve ratios - currently 13 per cent, although he said this did not signal a change in monetary policy.

## Sixty die in Hindu stampede

Sixty Hindu worshippers were crushed or suffocated to death, and scores were injured in a deadly stampede in India yesterday as they gathered to celebrate a new moon festival. Officials said 39 people, including five children, were killed and dozens injured in the town of Ujjain in central Madhya Pradesh state, when a crowd of worshippers surged down a narrow staircase inside a temple. At least 21 more were killed and 40 seriously injured when devotees rushed to bathe in the Ganges river in the northern town of Hardwar.

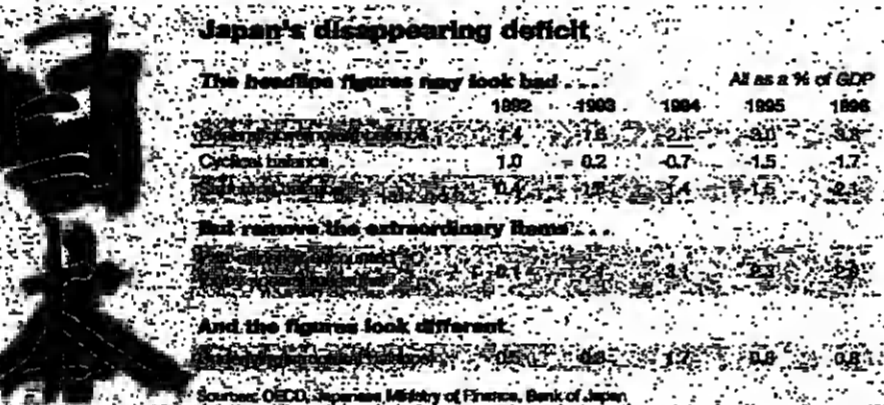
# Japan ready to put financial house in order

Fears about the state of public sector deficit may prove alarmist. Gerard Baker reports

Talk of financial crisis is in the air again in Tokyo, but this time it is not the follies of commercial bankers, brokers or copper traders that are attracting the critical attentions of investors. Instead the focus is on the government's finances.

Four years of recession and the inherent threat of a demographic time bomb have converted the Japanese public accounts from a centre of prudence and sobriety into a vision of fiscal incontinence. Until now, pressure from financial markets and bureaucrats to redress the growing imbalance has been damped by that long recession. Corrective measures have generally been regarded as inoperable while growth remained elusive.

But now, as the signs multiply that the economy is returning to normal, more healthy rates of growth, there are strong indications that the authorities are at last preparing to put the public finances in order. Urged on by the financial markets, the government seems to be preparing for an aggressive assault on the fiscal deficit in the next year. Last month it approved a rise in consumption tax, and senior finance ministry officials have pledged to restore the finances to balance as soon as possible.



However, evidence suggests the sense of crisis has been exaggerated. Thanks to Japan's innately conservative rules of fiscal management the immediate problem is already set to be addressed, without the need for more deflation.

The headline figures certainly appear to support the alarmist case. As recently as 1993, the general government balance showed a small surplus. But as the recession started to bite, cutting tax revenues and forcing public spending higher, Japan began to run its first ever persistent deficit. By this year, that gap had reached just less than 4 per cent of GDP.

And the underlying position is worse than that. The general government balance includes a so-called "structural deficit" - stripping out the estimated effect of the damage caused by cyclical weak revenues and higher public spending - was as high as 1.5 per cent of GDP last year, one of the highest of the Group of Seven industrialised countries, and is set to go higher this year.

Japan is now clearly in the fiscal delinquent class, says Mr Russell Jones, an economist with Lehman Brothers, the US investment bank in Tokyo. "The consolidation of the public finances is an urgent priority," it is a view widely shared in financial markets.

But there is a danger that some of this alarm may be misplaced. In calculating the structural balance, the OECD estimated only the effect rising growth will have on taxation and an automatically generated public spending, such as lower social security costs. But a large factor in the deterioration in the public finances has been the result of a unique feature of Japanese demand management. Repeated special stimulus packages have been used since 1992 to cut taxes and boost spending, over and above that which naturally occurs in a recession. In Japan, unlike in other industrialised countries, those measures are by their very nature time-limited - confined to just one fiscal year.

# Tokyo relieved at pro-nuclear win

By Emiko Terazono in Tokyo

Japanese government's plans to increase the country's reliance on nuclear-generated energy received a boost yesterday with the victory of a pro-nuclear power candidate in a controversial mayoral election in western Japan.

The slim victory in the election in Suzu by Mr Osamu Kaizo, supported by the Liberal Democratic party, the leading member of the government coalition, followed an accident last year at Monju, the country's most advanced nuclear power plant, which provoked opposition to the nuclear energy programme.

His opponent, Mr Junichiro Kashiida, was an opponent of the construction of a local nuclear plant, and was backed by local environmentalists and the Communist party. Prime Minister Ryutaro Hashimoto yesterday said the Suzu election result, in Ishikawa prefecture, indicated that the country's anti-nuclear sentiment has forced some electric power utilities to withdraw plans to construct nuclear power facilities. The town of Maki, in Niigata, in northern Japan, will hold the country's first referendum over the construction of a nuclear power plant next month.

Meanwhile, Mr Morio Kimura, governor of Aomori prefecture in the northern tip of Honshu, Japan's main island, yesterday expressed his support for plans to build a new nuclear plant in his prefecture. The Electric Power Development Corporation Council, a government advisory panel, has started to review plans to build a nuclear power plant in the village of Higashidori in north-eastern Aomori. The panel's review is the first since 1986, when it assessed a nuclear facility in Ishikawa for Hokuriku Electric Power.

However, the recent increase in the country's anti-nuclear sentiment has forced some electric power utilities to withdraw plans to construct nuclear power facilities. The town of Maki, in Niigata, in northern Japan, will hold the country's first referendum over the construction of a nuclear power plant next month.

## Indian industrial group confident over charges of share switching

# Reliance has 'sound defence'

By Mark Nicholson in New Delhi

Reliance Industries, India's biggest textiles and petrochemicals group, said it had a sound defence against criminal charges of illegal share switching and substitution of company shares to certain shareholders, and will "co-operate fully" with investigators.

The response follows summonses issued in Bombay last week by the registrar of companies against Reliance, its directors Mr Dhirubhai Anbani, Mr Anil Mukesh Anbani, Mr Anil Anbani and Mr Vinod Anbani, several other top executives and Reliance Consultancy Services, Reliance's registrar.

The criminal charges under the Companies Act relate to separate instances of alleged share switching and the issue of duplicate shares which have since been under investigation

by the Securities and Exchange Board of India, (Sebi), the country's market watchdog. The registrar lodged a total of 29 complaints in two main cases. One alleges wrongdoing in the substitution of 37,600 shares issued as duplicates to a Ms Rajul Vasa and family members, issued after the bearers reported the loss of their original Reliance shares. The charges allege that duplicate shares were issued even while Reliance's registrar remained unaware of the originals in existence.

The second case alleges official misconduct in the switching of more than 700,000 Reliance shares to three leading Indian financial institutions, Unit Trust of India, Peerless and Canfin, a subsidiary of Canbank. The court petition alleges the institutions, which lodged their shares for registra-

tion, had "not been delivered the shares they originally lodged for transfer, but have been delivered some of the shares with different distinctive numbers and/or from different transferees", in contravention of the Companies Act. The offences carry punishment of fines or imprisonment for up to 6 months or both. Speculation over the outcome of the investigations has cast a shadow over Reliance for several months, contributing to a recent sharp weakening in the company's share price. Reliance Industries' stock closed down Rs7 on Friday's close at Rs170.50 (\$4.81).

A Reliance spokesman said the company had "adequate and sound defences to all the complaints filed" and declined further comment on grounds the cases were now sub judice. A company statement said the company's officers had "at

all times exercised the highest levels of care" to ensure "full compliance of all applicable laws, rules and regulations" and denied any "deliberate or willful lapse in this regard". Sebi also on Friday cancelled the licence of Reliance Consultancy Services, the separate company which handles the Reliance group's share registration, for alleged wrongdoing in both the cases investigated. All share registration in India, which has an entirely paper-based system of share transaction, is done manually by registrar companies. A Reliance spokesman said yesterday that the company was seeking a "compounding" of all the 29 charges "to avoid a multiplicity of protracted legal cases" and urged all charges be heard together. The registrar has ordered Reliance to answer the charges in court on October 15.

## INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

Year	UNITED STATES				JAPAN				GERMANY			
	Consumer prices	Producer prices	Unit value	Real exchange rate	Consumer prices	Producer prices	Unit value	Real exchange rate	Consumer prices	Producer prices	Unit value	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.8	96.6	102.1	99.8	100.9	95.5	101.4	98.5	98.5	92.5	98.5	97.5
1987	105.8	100.7	103.9	97.5	101.3	92.5	103.1	100.0	100.1	96.0	107.9	107.1
1988	109.9	102.2	106.8	89.4	102.4	92.5	107.8	96.0	101.4	96.2	112.6	106.9
1989	115.2	108.5	109.3	101.4	105.1	94.2	114.0	98.8	104.2	98.3	117.1	108.0
1990	121.5	113.9	115.5	104.0	108.4	95.7	120.1	99.2	107.0	101.0	123.5	110.0
1991	126.6	116.3	117.3	107.3	111.8	96.8	124.2	103.9	110.9	103.4	131.3	110.0
1992	130.4	117.7	120.1	107.0	114.0	96.9	126.6	112.8	114.4	116.6	134.6	121.5
1993	134.0	119.2	121.1	107.7	115.4	97.5	128.5	113.5	117.2	118.1	145.6	125.9
1994	137.8	119.8	125.5	104.4	118.2	98.4	128.4	116.5	119.4	125.1	146.7	128.1
1995	141.7	122.2	129.7	104.7	118.8	92.0	132.5	115.8	127.4	127.5	155.8	118.1
2nd qtr:1995	3.1	2.1	2.4	-0.5	86.5	-0.1	-0.5	2.3	-3.3	151.4	1.9	1.9
3rd qtr:1995	2.6	1.8	2.8	-0.7	86.4	-0.2	-0.7	3.7	-0.7	136.9	1.7	3.3
4th qtr:1995	2.6	2.2	2.8	-0.5	89.8	-0.8	-0.7	3.2	-1.2	126.3	1.7	4.3
1st qtr:1996	2.7	2.2	2.7	-1.8	71.9	-0.3	-0.8	1.8	-0.8	122.1	1.6	0.2
July 1995	2.6	1.7	2.8	-0.2	85.6	-0.1	-0.7	6.5	-1.2	146.2	1.8	2.0
August	2.6	1.9	2.9	-0.5	68.7	-0.4	-0.7	0.8	0.0	138.3	1.7	1.8
September	2.5	1.8	2.7	-1.4	69.8	0.0	-0.8	2.3	-0.5	129.2	1.8	1.8
October	2.8	2.3	2.7	-0.7	89.3	-0.9	-0.8	0.8	0.2	127.2	1.8	1.8
November	2.8	2.1	2.5	-0.5	69.8	-0.8	-0.8	1.2	-0.5	125.6	1.7	1.3
December	2.5	2.3	2.7	-0.4	70.5	-0.5	-0.8	4.3	-0.8	126.2	1.9	1.2
January 1996	2.5	2.2	2.4	-1.2	71.5	-0.5	-0.8	0.1	0.5	122.0	1.5	0.0
February	2.6	2.0	2.8	-2.4	71.8	-0.3	-0.9	3.0	-2.5	122.0	1.6	-0.2
March	2.8	2.4	2.2	-1.9	72.3	-0.1	-0.9	2.7	3.3	121.8	1.7	-0.3
April	2.9	2.5	3.5	-1.3	72.9	0.3	-0.8	2.4	-0.1	120.8	1.5	-0.5
May	2.7	3.2	3.4	-1.2	73.4	-0.2	-0.8	1.5	0.2	122.3	1.7	-0.5
June	2.7					-0.1					1.4	

Statistics for Germany apply only to western Germany. Data supplied by Deutscher and WIEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted. US - United goods, Japan - manufactured goods, Germany - industrial products, France - intermediate goods, Italy - hourly producer prices, UK - manufactured products, Eurozone index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly export (Japan, UK) and UK (weekly). Unit labour costs: seasonally adjusted, measured in constant currencies. Germany - mining and manufacturing, other countries - manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 16 industrial country currencies, adjusted for change in relative wholesale price of domestic manufacturers. A fall in the index indicates improved international competitiveness.

NEWS: UK

Threat of fresh US and UK legal action the only significant remaining obstacle  
Voters back Lloyd's recovery plan

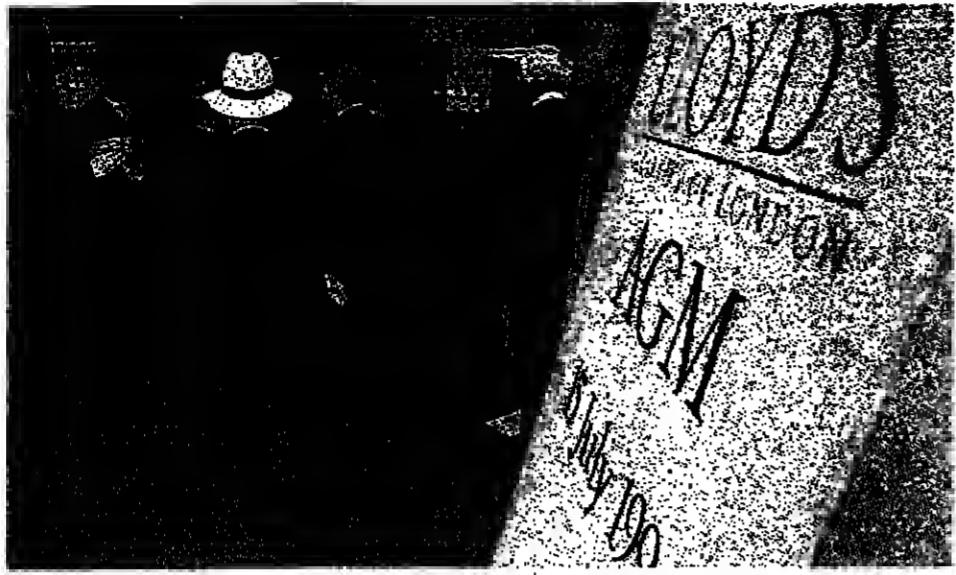
By Ralph Atkins, Insurance Correspondent

Lloyd's of London yesterday took another decisive step towards securing its future when the insurance market's annual meeting gave an overwhelming endorsement to crucial parts of its recovery plan.

Some 95 per cent or more of those voting by proxy backed proposed special levies on members underwriting at Lloyd's between 1993 and 1995. These will contribute £440m (£636.40m) towards the financing of the recovery package.

Separately, an attempt by rebel Names to force the future Lloyd's market to make significant extra contributions to the package was rejected by some 85 per cent of voters. Votes were still being counted last night and exact results are expected today.

Failure to win the votes would have wrecked the recovery plan, which includes an out-of-court settlement offer that Lloyd's disclosed was now worth £3.2bn to loss-making and litigating Names - individuals whose assets have traditionally supported the insur-



Current threat: an action group member hands leaflets of protest to Names arriving for the AGM

ance market. This includes an extra £40m agreed last week for US Names and an unspecified sum for those ruined by losses.

Mr David Rowland, Lloyd's chairman, described the results as "a ringing endorsement".

Individual Names will receive formal settlements offers later this month and then have until August 23 to accept. Opinion polls suggest more than 90 per cent will back the plan. That leaves as the only significant remaining

obstacle the threat of fresh legal action in the US or UK aimed at blocking the plan.

Action to destabilise the package is threatened in Virginia but Lloyd's hopes a week-end deal in which most US

state securities regulators agreed not to block the plan, would send "a strong signal" to rebel US Names.

Also planning a legal challenge is the Paying Names Action Group, representing those who paid losses during Lloyd's worst years and believe they are being unfairly treated compared with those who refused to pay.

Opening the meeting, Mr Rowland said Lloyd's priorities had to be the setting of litigation and writing off uncollectable debt. "To settle litigation gives benefits to those litigating compared with those who are not, and to write off debt may benefit those who have not paid in comparison with those who have."

But Mr Alan Porter, who led the rebel Names yesterday, warned there were likely to be between 4,000 and 5,000 "retailers" who rejected the settlement - "a sufficient body of angry people, able to muster significant resources for litigation, to ensure that Lloyd's will be pursued until the full truth of what happened in the late 1970s and early 1980s comes out."

'Brussels interfering in airline alliances'

By Michael Shepinker, Aerospace Correspondent

The European Commission began an investigation into six airline alliances, including the planned tie-up between British Airways and American Airlines, even though it had received no formal complaint against them, a commission official told a House of Commons committee yesterday.

Mr Jonathan Faull, the policy director in the competition directorate, also told the transport committee that the commission had never before carried out a full investigation under article 89 of the Treaty of Rome - the clause under which it is investigating the alliances.

He said although no airline had made a formal complaint against the BA-American alliance, the commission had received "letters of concern".

The planned tie-up between BA and American, announced last month, provides for the two airlines to co-ordinate flights and share revenues from their flights across the Atlantic. The planned alliance, which would control 80 per cent of UK-US flights, is also being investigated by the Office of Fair Trading.

Mr Robert Ayling, BA's chief executive, said last week that he did not believe the commission had the right to interfere in alliances outside the European Union.

Three US airlines said the alliance would give the carriers too much power. Mr David Goldman, senior vice president of United Airlines, said it should be allowed to go ahead only if other US carriers received new take-off and landing slots at London's Heathrow airport.

Mr Barry Simon, senior vice president of Continental Airlines, attacked the "sheer audacity" of the alliance. He said: "Heathrow is effectively closed."

Mr Robert Coggin, vice president of Delta Air Lines, said BA and American would have a monopoly on nine routes between London and the US.

UK NEWS DIGEST

BBC standards 'will not suffer'

Sir Christopher Bland, the chairman of the BBC, said last night that the government had given formal assurances that the performance of the World Service would not be damaged by a planned managerial reorganisation.

"The authority of the World Service will not be reduced by the changes. John Birt [the BBC director-general] and I have given an undertaking on that to the Foreign Office, and I personally will not agree to proposals which risked any diminution in quality," Sir Christopher told the Radio Academy. The World Service is funded by the Foreign Office.

Sir Christopher said that under the reorganisation plans the World Service would remain a separately managed BBC directorate responsible for administering its grant and scheduling and commissioning its own programmes. However, the programmes would come from BBC News and BBC Production. The changes were designed to make the World Service more cost-effective at a time when the government was making cuts totalling £14m (£21.8m) in capital and operational budgets between now and 1998.

Mr Birt also defended the planned changes and argued that the World Service was not "like a statute in the garden that will need preserving". He said the managerial changes, which will unite radio and television under the same management structure and separate the commissioning and making of programmes, would produce real benefits.

BOCI COLLAPSE

Islamic banks' claim fails

Attempts by two groups of creditors of the collapsed Bank of Credit and Commerce International to win special treatment and be paid first, and in full, failed in the High Court yesterday. The claims threatened the expected payment of 20p in the pound to ordinary creditors in a first dividend scheduled for this summer.

Liquidators at Deloitte & Touche in London said a group of Islamic banks, led by the Faisal Islamic Bank, had failed in their claim for up to \$600m. Former employees had also failed in a claim of \$400m related to the bank's Staff Benefit Fund. A third claim related to the bank's Provident Fund, for \$36.5m, was referred to the court in Luxembourg. "The English liquidators are extremely pleased with the results of the weeks hearings. The threat of \$1bn of provisions having to be made is removed and these funds are now available for the dividend payment."

MEDICINES

Call to protect price-fixing

Up to a quarter of the UK's pharmacies and 3,000 jobs will be at risk if price-fixing on non-prescription drugs is abolished, pharmacists warned yesterday. The Community Pharmacy Action Group, citing independent research by the consultants Deloitte & Touche, said that more than 3,000 UK pharmacies could be hit.

It was responding to an investigation into Retail Price Maintenance by the Office of Fair Trading and a high-profile campaign by supermarket group Asda to have RPM scrapped. RPM, a £1.2bn (£1.87bn) a year market, is the UK's last legal price-fixing arrangement, allowing manufacturers to set the shop prices of a range of health aids, cold cures and vitamin products. The CPAG also warns that pharmacies that would stock a narrower range of medicines. It claims that a typical pharmacy stocks some 700 lines - 10 times the number found in an average supermarket.

SHARE SETTLEMENT

Crest launches on schedule

Crest, the automated share settlement system for the City of London, started operating on schedule yesterday. The system, which was inaugurated by Mr Kenneth Clarke, the chancellor, will only settle its first trade next month.

Its first use came when two stockbroking firms, Kleinwort Benson and Redmayne Bentley, placed instructions to settle trades in the shares of English China Clays, one of the 14 companies whose shares will settle first in Crest.

Mr Clarke said the inauguration of Crest, which has been developed by the Bank of England at a cost of £28m over three years, "will help keep London at the cutting edge as one of the world's leading financial institutions".

The system operated without problems, although Crest has extended software trials for participants to enable them to test minor alterations. The first heavy use should come in October when the first FTSE-100 shares are settled.

Central bank autonomy argued

By Robert Peston, Political Editor

The Bank of England is increasingly convinced that it would gain independent powers to set interest rates under a Labour government, although inflation targets would still be set by the chancellor of the Exchequer.

Policy-makers in the opposition Labour party last night confirmed that the Bank would receive greater autonomy under the party's plans - ahead of disclosures relating to disputes between Mr Kenneth Clarke, the chancellor and Mr Eddie George, the Bank's governor.

On Thursday there will be confirmation - in the minutes of their meeting - that Mr George opposed last month's

quarter-point reduction in base rates which Mr Clarke ordered.

The Bank's conviction that it will receive independent powers to set interest rates is based on Labour's outline manifesto, *New Labour, New Life for Britain*, and on talks between its officials and senior Labour representatives.

The outline manifesto says that Labour will "reform the Bank of England to ensure that decision-making on monetary policy is more effective, open, accountable and free from short-term political manipulation".

The focus on freeing the Bank from "political manipulation" is interpreted by its senior executives to mean that it would receive "instrument independence".

MPs warned of 'backfire' from politically led tax cuts

By Robert Chote and Gillian Tett in London

Politically motivated tax cuts in the UK might well backfire by forcing an increase in interest rates which would leave many households and businesses worse off, Mr Kenneth Clarke, the chancellor of the exchequer, said yesterday.

In evidence to a Parliamentary committee, the chancellor continued his long-term campaign to play down expectations of tax cuts in November's Budget. He warned that the financial markets would punish tax cuts which they did not believe were economically justified.

"If we were perceived to be cutting taxes for political reasons," he said, "we would pay a penalty in higher interest

rates which would be damaging for large sections of the population."

Mr Clarke claimed that for many people a 1 percentage point rise in interest rates would more than wipe out the financial gain from a 1p cut in the basic rate of income tax.

The chancellor also mounted a strong defence of his relatively upbeat forecast for economic growth, arguing that it posed no threat to inflation. Mr Alan Budd, the government's chief economic adviser, told the committee that the economy was probably running between 0 per cent and 3 per cent below full capacity.

However, the chancellor's forecast for a sharp upturn in consumer spending was yesterday challenged by retailers themselves.

Mr Andrew Sentance, chief economic adviser to the British Retailers' Consortium said: "The Treasury's summer forecast of an increase of over 4 per cent in real consumption next year seems rather optimistic - with low wage growth and job insecurity reinforcing consumer caution and limited scope for tax cuts in the year ahead."

Meanwhile, hopes of a pick-up in the housing market were reinforced by a survey from the Royal Institute of Chartered Surveyors. This showed the proportion of estate agents reporting higher prices at its highest since October 1995.

However, this could reflect the fact that supply has yet to catch up with growing demand.

Pace quickens in race for Bosnian trade

Companies are worried overseas competitors may have the edge

One of the few successes in Bosnia for British companies has been an order worth tens of thousands of US dollars for spare train engine parts to help rebuild part of Bosnia's devastated transport system.

The order was awarded this month to the Glasgow-based Turner group of industrial companies amid complaints that British companies have been lagging behind European rivals in establishing trade links with the country.

Comparisons have been made with Kuwait where, following the Gulf war, British groups were beaten by US rivals for the bulk of reconstruction work. Mr Mickey Kantor, the US commerce secretary last week flew to Dubrovnik to promote US trade initiatives.

But Mr Martin Laing, the chairman of construction group John Laing who recently led a trade mission of 20 British companies to Bosnia, said comparisons with Kuwait were misleading. US companies in Kuwait were in a much stronger position given the country's dominant role in the Gulf war.

He said it was not too late for British groups such as Turner to position themselves to win substantial work in Bosnia. Very few contracts had been awarded in the country so far. Aid budgets had only just been agreed and there was still a substantial gap between realised funds and money promised.

Mr Laing advised groups seeking work in the country to form joint ventures with local companies to increase their chances of winning contracts. So far, \$3m of aid over three years has been pledged by the World Bank, the European Bank of Reconstruction and Development, the European Union and other donors, including the UK government.

Companies on the Department of Trade and Industry mission complained that, unlike other countries, the UK government had not made offers of aid conditional on



Martin Laing: urges British groups to persevere in Bosnia

British companies being awarded contracts for specific projects.

Mr John Davis, a project manager with Vector, the aviation and transport management consultants, said: "Sweden and the Netherlands have tied bilateral aid to ensure their domestic companies win telecommunications contracts and work on rebuilding Sarajevo airport. The Germans have also been very active in this area."

Ericsson, the Swedish telecommunications group, announced last Thursday that it had signed a contract with PTT of Bosnia-Herzegovina for a mobile telephone system for Sarajevo and three other principal cities.

The few British businesses with operations in Bosnia say they are substantially outnumbered by mainland European companies which have established trading links in the region.

Mr Khatib Alam, the manager of operations in former Yugoslavia for GHK International, the UK-based economics, management, and engineering consultants, has worked in Mostar for almost two years.

He said: "British companies must be prepared to invest, even if only to finance feasibility studies, which can be later used to attract aid as projects get under way."

Andrew Taylor

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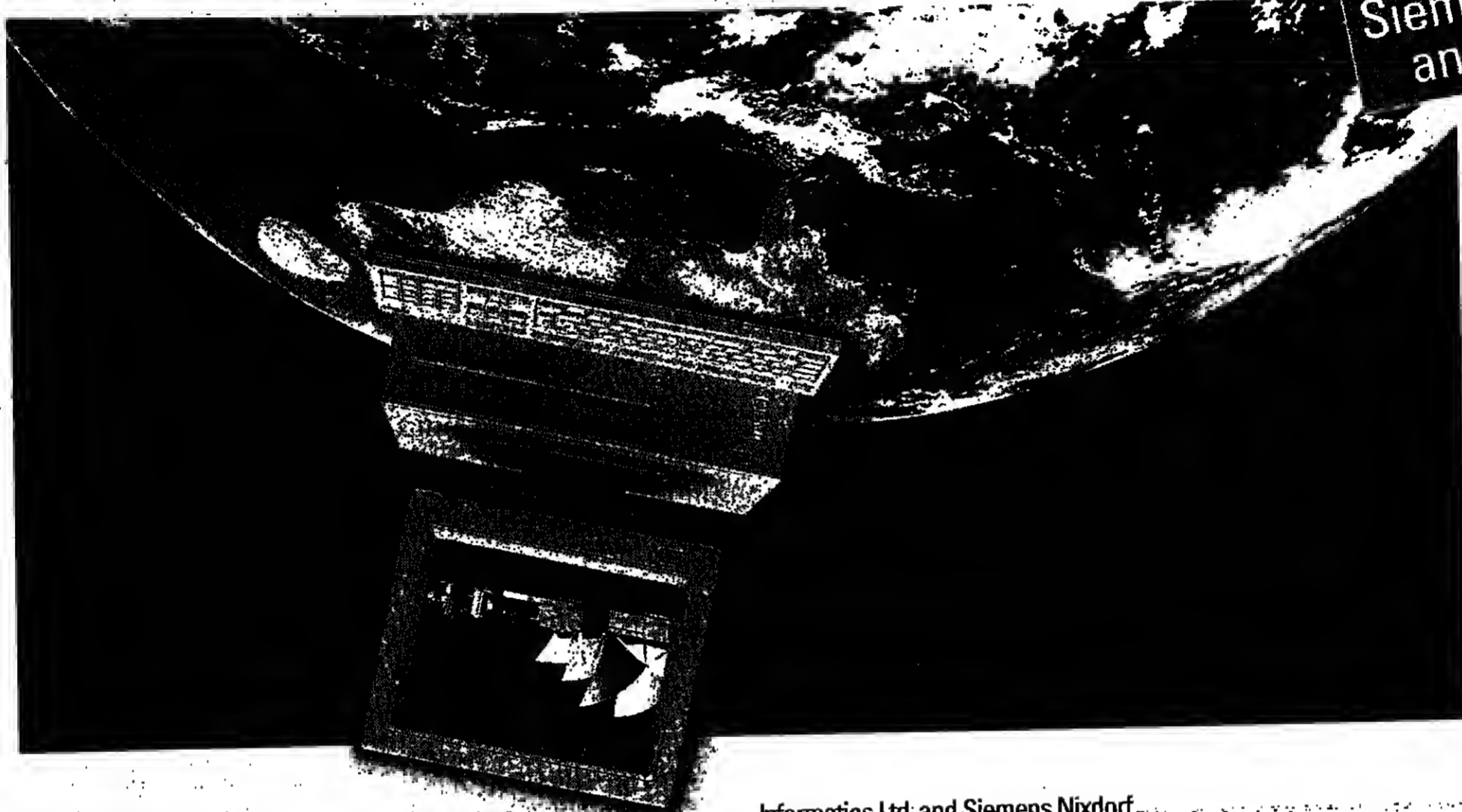
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# SIEMENS NIXDORF

# IT WORLD NEWS

INFORMATION TECHNOLOGY

Siemens Nixdorf and Partners



The breathtaking pace of development in the IT sector is being paralleled by growing customer expectations: in terms of hardware and software, services and vertical market expertise. What's wanted are all-encompassing solutions that are precisely tailored to the customer's individual needs. Under its User Centered Computing approach, Siemens Nixdorf is partnering leading solutions providers and consultants to provide the best possible solutions for the user. Siemens Nixdorf has launched an innovative partner management program with the aim of intensifying its international partnering agreements. Numerous activities - ranging from sales and marketing support to strategic alliances - are fostering Siemens Nixdorf's various partnerships.

## Coopers and Lybrand, SAP and Siemens Nixdorf Sydney: Australia's first R/3 retail solution debuts at BBC.

A project called ACCESS is helping to keep Australia's premiere hardware retailer BBC Hardware in the success lane. Under the project management of Siemens Nixdorf, a team of partners - including Coopers and Lybrand, one of the world's largest consultants, and SAP with its R/3<sup>®</sup> Industry Solution retail application - joined forces to successfully develop this enterprise information system. The hardware platform consists of the largest massively parallel processing servers in the RM family, numerous Beetle POS systems, Primergy servers and SCENIC PCs. Siemens Nixdorf's TransView software is being used for nationwide network management across all system platforms. This assures smooth and dependable communications between headquarters and BBC's more than 200 stores, all the way through to the individual Beetle terminals. From merchandise management to accounting, BBC has thus been able to deploy the first do-it-yourself installation of this magnitude, the first R/3 IS retail solution and the first TransView site in the land down under.

## Informatics Ltd. and Siemens Nixdorf Colombo: An IT solution for cellular phone service provider Celltel that's making waves around the world.

The word spreads quickly, when it comes to intelligent solutions for mobile communications. The Infocel software solution had initially been intended for Celltel, Sri Lanka's largest cellular phone service provider. But thanks to its innovative concept, Infocel now enjoys marketing opportunities throughout the world. Pakcom in Pakistan, a subsidiary of

Millicom International Cellular Company USA is just the beginning. This development comes as no surprise: because Siemens Nixdorf's partner in Sri Lanka, Informatics Ltd., is one of the country's largest IT players with customers throughout Asia, as well as in the United States and Europe. What Siemens Nixdorf added to Infocel was the power of its UNIX<sup>®</sup> servers.

Automated billing and collections, as well as flexible adaption to changing tariff structures, special rates and monitoring high user traffic patterns are the key features of the innovative Infocel solution. The benefit to Celltel Sri Lanka: within the space of only two years, this cellular service provider has been able to more than quadruple its customer base.

## RTC and Siemens Nixdorf London: Beetle POS a smash hit at Liberty.

A new point of sale solution is now affording Liberty a complete overview of all its business operations. The

platform: the innovative Beetle POS systems from Siemens Nixdorf and a custom-tailored software solution from RTC Real Time Control. As one of the most prestigious retailers in the United Kingdom, what Liberty needed was a POS solution whose performance and extensibility would make for a perfect fit with the retailers' requirements.

With RTC, Liberty now has a partner at its side who can do a perfect job of deploying the complete solution. One of the largest dealers and systems developers for open business systems, RTC has been a Siemens Nixdorf partner for years. A successful pilot installation in two Liberty retail outlets at Heathrow Airport was followed by the deployment of this forward-looking sales information system that includes more than 100 Beetle POS terminals. Customers, staff and management are all benefiting from the new solution.



# SIEMENS NIXDORF

## GVD Leasing and Siemens Nixdorf Wiesbaden: Notebook leasing puts even more speed and flexibility into R+V's field organization.

German insurer R+V Versicherung responded quickly and flexibly to the growing needs of the insurance market by consolidating all of its field activities and equipping its more than 4,000 agents with powerful, uniformly configured notebooks. The breathtaking pace of development in the PC sector, coupled with anticipated expenses for service, support and disposal, made leasing the obvious alternative. Which quickly led to new problems: the need to find one vendor who would be able to offer the right solution in terms of both technology and financing. And who would have sufficient capacity to supply all the notebooks, along with proven staying power and comprehensive, nationwide service.

A decision was quickly reached to go with Siemens Nixdorf, a specialist in innovative hardware solutions, and its established financing partner, GVD Leasing. Working in close cooperation with R+V, it was possible to put together a contract package

that was both complex and flexible: a customer-specific lease term, pre-installation of the customer's own software, as well as support and update service. Plus the ability to respond flexibly to technological developments and changing customer needs.

The customized structure of the contract package and the innovative financing model are unique in the IT market. R+V is completely satisfied with this complete service.



## Oracle, Pyramid and Siemens Nixdorf Minnesota/Bristol: Creative data warehousing makes well-known retailers even more creative.

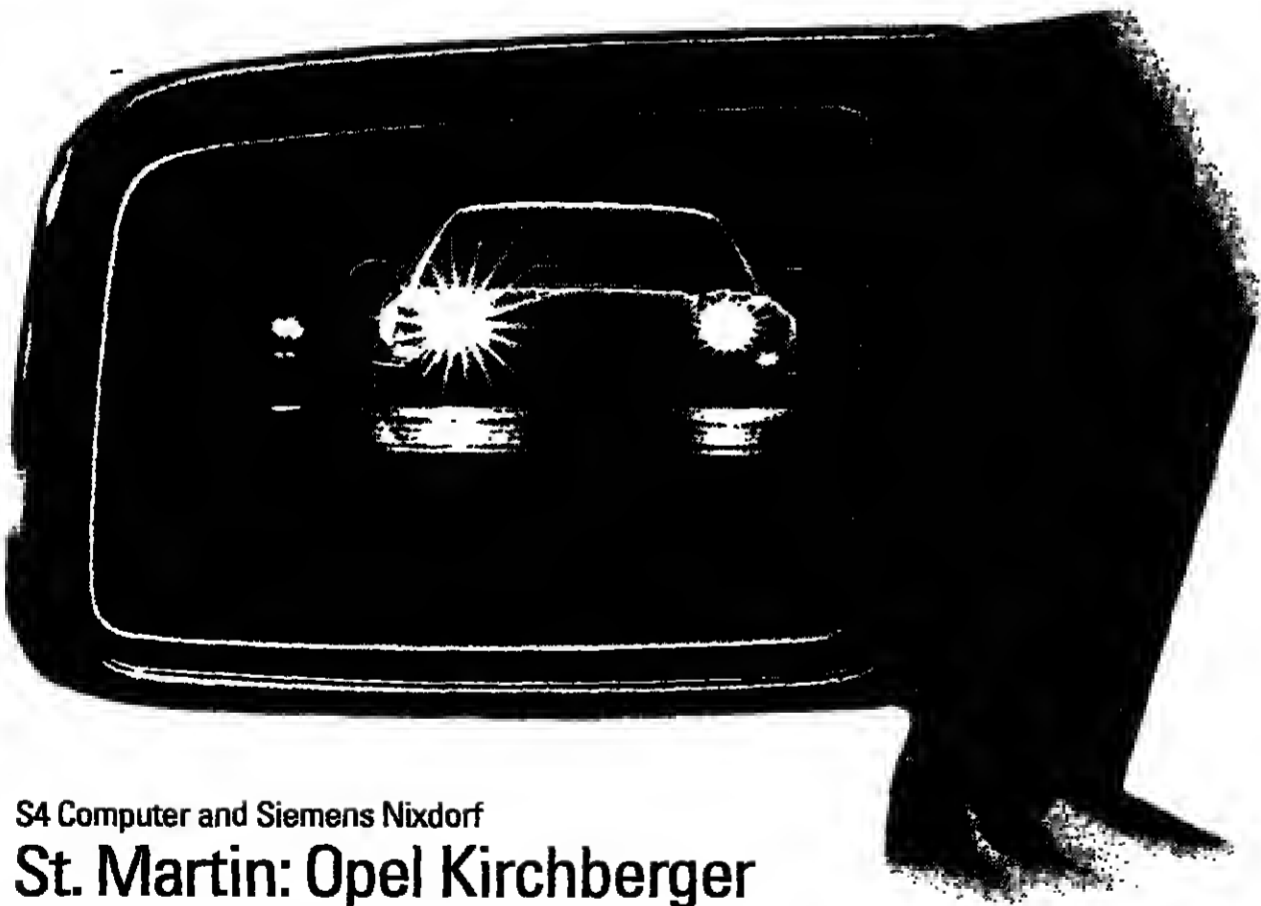
Oracle Corporation and Pyramid Technology, Siemens Nixdorf's U.S. subsidiary, have a long and mutually beneficial track-record of bringing business-critical, enterprise solutions to corporations around the world. The two companies have teamed to provide powerful solutions that centralize a company's most critical information into a single, easily accessible, extraordinarily powerful data warehouse.

One company, who has benefited from the combined power of Oracle and Pyramid solutions is Damark International. Damark, a \$500 million dollar direct marketer of eight categories: merchandise computers, electronics, video, audio, housewares, home office, sports and fitness. Through the Preferred Buyers Club™, started in 1987, members receive special discounts on merchandise and other benefits. Damark relies on two Pyramid Nile 150 Servers and two Nile 100s in Reliant Clusters, running Oracle Parallel Server and applications to analyze customer needs. Since turning to Oracle and Pyramid, Damark's system downtime has been dramatically reduced and system availability has increased

significantly. The next step calls for the introduction of a data warehouse solution. Damark's goal is to better understand its customers' needs and to develop targeted direct mail strategies aimed at attracting new prospects and boosting dollar-volume per catalog mailed. With the competitive edge afforded by a data warehouse, Damark can continue to aggressively expand club membership.

Another retailer now benefiting from Siemens Nixdorf's experience is the British supermarket chain, Somerfield. At the Somerfield Group, a comprehensive data warehousing solution has now been deployed at Somerfield's head office, impacting 600 stores nationwide. The platform: the largest servers in the RM family from Pyramid and Siemens Nixdorf.

Somerfield hallmarks are its neighborhood locations, a high quality range of products and the uncompromising freshness of its foods. The joint solution from Pyramid and Oracle allows Somerfield to assure that these standards are always satisfied - even in smaller locations - end to effectively combat supply bottlenecks.



## S4 Computer and Siemens Nixdorf St. Martin: Opel Kirchberger is leaving the competition in its dust with its new IT system.

The deployment of an innovative communication system at Austria's Opel dealerships is now affording them a high-speed link to the factory.

As a Certified Vendor, Siemens Nixdorf's Austrian distributor, S4 Computer was responsible for handling the extensive installation. The platforms: the DCS2 Dealer Communication System and its integration in the GODICS dealer system.

DCS2 assures Austrian Opel dealers transparent logistics in parts and new vehicle ordering, as well as in warranty claims administration, through direct communication with

the Opel factory. Because, especially in the automotive industry, fast communication between factory and dealer represents a major competitive factor in catering to the needs of local customers.

And that's just what it does at Opel Kirchberger, whose three locations and car sales of some 1,500 new vehicles and 1,500 used vehicles a year make it one of Austria's largest Opel dealerships.

With the SCO computers and the more than 40 router-networked SCENIC PCs that were installed by S4 Computer, Opel Kirchberger now offers its customers even more flexibility and is leaving its competition in the dust.



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COMPANIES AND FINANCE: THE AMERICAS

US brokers' resilience surprises analysts

By Maggie Urry in New York

Further evidence that conditions remained favourable for US brokerages came from Donaldson, Lufkin & Jenrette and PaineWebber, which both published strong second quarter results yesterday.

Analysts of the sector have been surprised by the continued strength of investment banks' earnings, and with the markets weakening are predicting a slowdown in coming months. Despite the market's weakness yesterday, DLJ's shares rose 5/8 to \$287 1/2 in early trading, while PaineWebber's

shares were unchanged at \$21. DLJ, which is 80 per cent owned by The Equitable, beat analysts' forecasts by a wide margin, reporting earnings per share of \$1.53 compared with a consensus estimate of \$1.05. In the same quarter of 1995, DLJ earned 72 cents, and in the first quarter of this year earnings per share were \$1.01.

Net income for the quarter was \$77m, compared with \$42m in the same three months of 1995, and \$65.1m in the first quarter of this year. The broker, which floated in October last year, benefited from a larger share of an active

underwriting market, and from the sale of its remaining investment in G-Tech Holdings, the lottery company, which contributed 30 cents a share to second quarter earnings.

Although revenues from trading slipped from the high level of the first quarter, from \$143m to \$122m, revenues from other sources increased. Underwriting income jumped from \$135m in the first quarter to \$256m in the second, more than double the \$119m of underwriting revenue in the second quarter of 1995.

DLJ's rise through the underwriting league tables has continued, and for the first half of 1996 it stood in fourth place in the table of disclosed fees from domestic public issues, with a market share of 8.4 per cent up from 8.1 per cent a year ago.

At PaineWebber, earnings slipped in the first quarter from 92 cents a share to 85 cents, although they were sharply higher than the 28 cents in the second quarter of 1995. The result beat the consensus forecast of 63 cents a share. Net income was \$92.2m in the second quarter, compared with \$35.4m in the same

period of 1995, and \$101m in the first quarter of 1996. Ms Regina Dolan, chief financial officer, said some uncertainty among investors following the rise in bond yields had affected trading in fixed-income products in the second quarter, although revenues were still at high levels.

She said that inflows from retail customers had continued at around \$1bn a month. Some investors were nervous of equities after recent market falls, but were directing their cash to other products. She said it was too early to predict the outcome for the third quarter.

CPC Int'l ahead but warns on corn costs

By Richard Tomkins in New York

CPC International, the US food company that makes Hellmann's mayonnaise, Knorr soups and Mazola corn oil, increased net profits by 8 per cent to \$153.9m, or \$1.04 a share, in the second quarter, but warned that troubles in its corn refining business would hit its third-quarter results.

It said good results from its consumer food businesses could be substantially offset in the third quarter by the effect of tight supplies in the corn market. These had produced extremely high corn costs in the second quarter, reducing the division's operating profits by 44 per cent.

NEWS DIGEST

MFS wins Dutch telecoms licence

MFS, a US telecommunications carrier with widespread operations in Europe, claims to be the first overseas operator to benefit from the liberalisation of the Netherlands' telecoms market. It said yesterday it had been awarded a full licence giving it rights to build infrastructure and offer national and international services in the country, including public switched voice and data.

Subject to negotiations with landowners, MFS now has the right to lay fibre-optic cabling and bring undersea cables ashore for international communications. It is negotiating with Amsterdam to lay cables round the city and out towards the airport. This has been made possible by the passage of an interim telecoms bill through the Dutch parliament. The European Commission has ruled there must be free competition in both infrastructure and services from January 1, 1998. Until then, most European countries will only allow overseas competitors to install private voice and data networks.

Bowater optimistic despite fall

Bowater, the largest US newspaper producer, reported a fall in second-quarter income as lower prices hit profits. However, Mr Arnold Nemirow, chairman and chief executive, suggested a more optimistic outlook saying "shipments of newspaper, coated groundwood papers and market pulp increased over first-quarter levels." He said prices for pulp "began to improve late in the quarter."

Second quarter net income was \$44.5m, down from \$58.5m in the same period of 1995, and from \$75.5m in the first quarter of the current year. Earnings per share were \$1.10, before a 4 cent share charge relating to the repurchase of some of the group's debt, compared with \$1.31 in the second quarter of 1995, and \$1.69 in the first three months of this year. In the quarter Bowater bought back 450,000 of its shares, taking the total acquired under its buy-back plan to 2.1m, just over half the amount it is authorised to buy.

Boise Cascade tumbles into red

Falling sales and slumping paper prices hit Boise Cascade, the US paper and forest products group, which suffered a \$17m net loss in the three months to June 30, compared with a net profit of \$93.5m in the same quarter of last year. The loss per share was 55 cents, compared with earnings of \$1.43. However, the group said its paper business returned to profit late in the quarter as demand and prices both began to recover.

Arequipa non-committal on bid

Arequipa Resources, the Vancouver-based exploration company, has given a non-committal response to Barrick Gold's \$1.5bn (US\$968m) takeover bid. Ms Catherine McLeod, Arequipa chief executive, said yesterday: "We view this as a serious offer from a serious company." Arequipa has hired Neshitt Burns, the Canadian securities firm, to help assess the bid. Analysts expect that Arequipa, whose main asset is the promising Pierina gold and silver deposit in Peru, will ultimately accept Barrick's cash bid, unless a more attractive offer surfaces. Arequipa shares rose 20 cents to C\$28.25 in early trading in Toronto yesterday, compared with Barrick's C\$27 a share offer.

Sharp fall at Archer Daniels

Archer Daniels Midland, the international grain and food processing group, said net earnings tumbled 36 per cent in the fourth quarter ended June 30, as price increases in its raw commodity ingredients chipped away at profits. It said fourth-quarter net earnings fell to \$143.5m, or 28 cents a share, from \$225.5m, or 42 cents, in the same quarter last year. The secretive company does not release sales figures with its earnings reports.

Rio Algom chief dies

Mr Lawrie Reimertson, chief executive of Rio Algom, the Toronto-based mining group, died suddenly of a heart attack on Sunday. Mr Reimertson, who was 51, moved to Rio Algom in April. He was previously managing director of Placer Pacific, the Australasian gold producer. Mr Gordon Gray, Rio's chairman, will take over the responsibilities of CEO until a successor is named.

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Floating Rate Dated Notes due 13th July 2000
exchangeable into Undated Floating Rate Notes

Banks maintain earnings in second quarter

By Richard Waters in New York

The spectre of higher credit card and consumer loan losses, and fears of higher US interest rates, may have hit US banks' shares in recent weeks. But as of the second quarter of this year, at least, the industry's solid earnings gains continued, according to results from a number of banks yesterday.

period, two - NationsBank and First Chicago NBD - registered notable increases in credit losses over a year before. Wall Street has been nervous about such losses since Bank of New York's announcement a month ago of a sizeable provision in its credit card operations.

However, higher lending volumes and an increase in overall net interest margins, in part due to a shift away from lower-yielding assets, enabled both banks to register earnings advances for the period.

NationsBank's net income rose 30 per cent to \$605m, in part due to acquisitions, while earnings per share climbed 16 per cent to \$1.98. At First Chicago, after-tax earnings were 9 per cent higher at \$361m, or \$1.09 a share. Meanwhile,

Norwest reported a 22 per cent increase in net income, to \$265m, or 76 cents, while PNC said its earnings had risen 28 per cent to \$248m, or 72 cents.

Hughes Electronics ahead 6.3% on strong demand

By Christopher Parkes in Los Angeles

Strong demand for commercial satellites and cellular telephones contributed most to a 6.3 per cent increase to \$307m in second-quarter earnings at Hughes Electronics, the General Motors subsidiary.

business, which accounted for 38 per cent of revenues totaling \$410m, increased sales almost 5 per cent. The telecommunications and space division, which includes fast-growing DirecTV, the leading US satellite television service, recorded a 24 per cent rise in operating profits to \$87m.

Applied Materials downbeat

By Louise Kehoe in San Francisco

Applied Materials, the leading US manufacturer of production equipment for the semiconductor industry, warned yesterday that results for its third fiscal quarter ending July 28 would be below previous projections.

below Wall Street estimates of about 96 cents a share. Applied Materials shares fell 3 1/2, or 5 per cent, to \$26 1/2 in early trading yesterday.

investments in new factories, the company said. However, capital spending trends among European and Korean groups remain unchanged.

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STATEMENT OF CONDITION, JUNE 30, 1996
ASSETS
Cash and Due from Banks \$ 98,500,597
U.S. Government Securities
Direct and Guaranteed 151,416,632
State and Municipal Securities 61,668,052
Federal Funds Sold 142,530,000
Loans and Discounts 830,425,072
Trading Assets 129,848,592
Customers' Liability on Acceptances 27,837,803
Interest and Other Receivables 68,272,035
Premises and Equipment, Net 48,663,851
Other Assets 18,142,842
\$1,575,223,276
LIABILITIES
Deposits \$1,188,074,973
Federal Funds Purchased and Securities
Sold Under Agreement to Repurchase 24,175,000
Trading Liabilities 116,808,898
Acceptances: Less Amount in Portfolio 27,837,803
Accrued Expenses 28,715,193
Other Liabilities 22,711,808
Capital \$ 54,000,000
Surplus 166,000,000
\$1,575,223,276
PARTNERS
Peter B. Bardett Brian A. Baris Walker H. Brown Douglas A. Donahue, Jr. Anthony T. Enders Alexander T. Erickson T. M. Farley Ebridge T. Gerry, Jr. Kyusuke Hashimoto
Noah T. Herndon Landon H. Hertz Richard W. Kitz Michael Kravynak, Jr. T. Michael Long Hampton S. Lynch, Jr. Michael W. McConnell William H. Moore III Donald B. Murphy John A. Nielsen
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Members of Principal Stock Exchanges
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Northern Telecom remains wedded to technology

Mr Jean Monty, president and chief executive of Northern Telecom, rejects the description of "telecommunications equipment manufacturer" for his company. "We are a technology supplier," he says reprovingly.



Jean Monty: 'We will acquire technologies where we have a void'

Technology is the foundation of Nortel's present position. A daring decision in the 1970s to introduce computer-based switching equipment propelled the Canadian company into the ranks of the world's top telecoms equipment suppliers and left it a leader in digital switching, able to hold its own against larger groups such as AT&T (now Lucent Technologies) of the US and Alcatel of France.

Technology features strongly in Mr Monty's ambitions for the group. Last year it spent US\$1.68bn on research and development, some 14.8 per cent of revenues and well above the industry average of about 10 per cent. In 1994 the proportion was 13 per cent. In 1993, when Mr Monty took over the top job at Nortel from Dr Paul Stern, one of his first and most critical decisions was to drive R & D spending up from 11 per cent to 12.8 per cent.

It is a commitment he is determined to sustain. "No technology company can survive without growth. If you do not grow in a technology business, you are bound to fail in the long term because that would mean you were not staying abreast of the industry."

Sharp fall at Archer Daniels

Archer Daniels Midland, the international grain and food processing group, said net earnings tumbled 36 per cent in the fourth quarter ended June 30, as price increases in its raw commodity ingredients chipped away at profits. It said fourth-quarter net earnings fell to \$143.5m, or 28 cents a share, from \$225.5m, or 42 cents, in the same quarter last year. The secretive company does not release sales figures with its earnings reports.

Rio Algom chief dies

Mr Lawrie Reimertson, chief executive of Rio Algom, the Toronto-based mining group, died suddenly of a heart attack on Sunday. Mr Reimertson, who was 51, moved to Rio Algom in April. He was previously managing director of Placer Pacific, the Australasian gold producer. Mr Gordon Gray, Rio's chairman, will take over the responsibilities of CEO until a successor is named.

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U.S. \$19,000,000
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exchangeable into Undated Floating Rate Notes
and
U.S. \$48,250,000
Floating Rate Dated Notes due 13th July 2000
exchangeable into Undated Floating Rate Notes

Interest Rate
Undated Notes 6.025% per annum (LIBOR 5.875% + 0.15%)
Dated Notes 5 7/8% per annum (LIBOR 5.875%)
Interest Period 16th July 1996 to but excluding 16th January 1997
Interest Amount due 16th January 1997
Undated Notes per U.S. \$ 10,000 Note U.S. \$ 307.94
per U.S. \$250,000 Note U.S. \$7,698.61
Dated Notes per U.S. \$ 10,000 Note U.S. \$ 300.28
per U.S. \$250,000 Note U.S. \$7,506.84
CS FIRST BOSTON
Agent

JAN 15 1996

# Mediaset shares shrug off uncertainty

By Andrew Hill in Milan

Shares in Mediaset, the Italian television and advertising company, yesterday shrugged off regulatory uncertainty, a depressed market and the indictment of the group's chief executive to rise to a 4.5 per cent premium over the offer price on their first day of official trading.

The closing price of L7,316, against an offer price of L7,000, was lower than some prices struck in unofficial trading last week, when the shares occa-

sionally topped L8,500. But that was before Friday's decision by a Milan judge to send Mr Silvio Berlusconi, the former Italian premier, and Mr Aldo Livolsi, the group's chief executive, for trial in connection with illegal financing of the now-defunct Socialist party by Fininvest, the private Berlusconi holding company which is Mediaset's controlling shareholder.

Mr Berlusconi and Mr Livolsi deny the charges, which do not relate to Mediaset's activities. Analysts said that the performance of the shares, 12.7m of

which changed hands yesterday in heavy trading, was creditable given the uncertain environment. Mediaset, which owns Italy's three largest commercial television channels and its largest television advertising company, is also awaiting the outcome of a drawn-out legislative debate of rules on Italian media ownership. The centre-left government has said it will approve draft legislation on the regulation of the telecoms and media sector tomorrow. The new law could force Mediaset

to transform one of its three terrestrial channels into a satellite or cable channel by the end of summer 1997. Mr Fedele Confalonieri, Mediaset chairman, said it was "a good debut" for the shares, which went to 245,000 investors, including small shareholders in Italy and international institutions. The shares opened at L7,560, but lost ground in a depressed market.

The flotation, co-ordinated by Imi of Italy and Morgan Stanley of the US, makes Mediaset one of Italy's 10 largest

quoted companies, with a market capitalisation of more than L8,600bn (\$5.6bn). Fininvest's stake will come down to 50.1 per cent if the over-allotment option is exercised, and slip below 50 per cent if minority shareholders exercise options to buy more Mediaset shares. One aim of the flotation was to reduce the conflict of interest between the business and political ambitions of Mr Berlusconi, who is still leader of Italy's right-wing opposition. World Stock Markets, Page 40

# Bertelsmann denies it seeks listing to raise cash for TV plan

By Judy Dempsey in Berlin

Bertelsmann, Germany's largest media and entertainment group, yesterday denied it was seeking a listing on the stock exchange in an attempt to raise capital to pursue its television interests. But it confirmed it was seeking partners in the US to compete with the Kirch group, which last week formed an alliance with Mr Rupert Murdoch to launch digital television later this month in Germany.

Mr Michael Dornemann, a board member of Bertelsmann who is also responsible for the electronic media division, said the group was "capable of financing the necessary investments on its own".

His statement was designed to dampen speculation that Bertelsmann was planning to sell up to 49.9 per cent of RTL, Germany's successful commercial television network, in which it holds the majority stake.

It also follows weeks of reverses for Bertelsmann, which believed it could beat the Munich-based Kirch group in the race for the launch of digital television.

But two months ago, an alliance forged between Mr Murdoch, owner of BSkyB, and Bertelsmann, which would have boosted the group's chances in digital television, fell apart after Mr Murdoch withdrew.

Mr Murdoch last week opted to form a potentially formidable alliance with Mr Leo Kirch, chairman of the Kirch group.

The alliance, acting under the umbrella of DFI, the digital television division of Kirch, is scheduled to launch the network later this month. However, Bertelsmann said yesterday that it would continue to pursue its plans for digital television.

"We are not out of the race for digital television. We will stay in it, although it is true that Kirch is far ahead," Bertelsmann said.

# INTERNATIONAL NEWS DIGEST

## BHF and CCF take control at Asia bank

BHF-Bank of Germany and CCF, the French bank, are taking a joint majority stake in a planned new Asian merchant bank called Equinox Group Holding, BHF and CCF, which co-operate on European mergers and acquisition business, will each have a 30 per cent stake. The new bank, which will have capital of \$100m, is being set up by a group of US and Asian bankers who will own a combined 5 per cent.

Other private and industrial investors will come from Hong Kong, Indonesia, Thailand, South Korea, the Philippines and Japan. Equinox will concentrate on corporate finance and equity holdings with the aim of helping multinational companies, especially German and French, to expand in Asia. It will be based in the Cayman Islands, with branches in Hong Kong and Singapore and representative offices in Frankfurt, New York and Paris. Andrew Fisher, Frankfurt

## Warburg in S Africa link-up

SSC Warburg is to team up with Capital Alliance, the South African fund management, project and corporate finance house set up by Mr Mzilikazi Khumalo. Since the acquisition last year of brokers J.D. Anderson & Co, Warburg has been one of the largest foreign investment banks operating in South Africa, with more than 80 employees.

As well as advising South African corporations on cross-border acquisitions, Warburg has led South African debt and equity issues. It has already worked with Capital Alliance on corporate finance projects, and said yesterday the partnership would give it access to a well-established bank-controlled financial services company in South Africa. Capital Alliance, founded in 1991, recently announced a restructuring to extend its activities into life insurance through Salife. George Graham, Banking Correspondent

## S&P cuts News Corp outlook

Standard & Poor's, the US-based ratings agency, is downgrading its ratings outlook on Mr Rupert Murdoch's News Corporation from "positive" to "stable". However, existing ratings - including the triple-B rating on News America Holdings' US\$6.6bn of senior debt - were reaffirmed.

The agency said the revision partly reflected a "slowing of the trend of credit improvement" that it had previously anticipated for 1996, and partly the risks associated with News' investments in direct broadcast satellite pay-TV and "other business initiatives". Uncertainty over the capital required to support new satellite ventures and the time-frame for break-even cashflow was likely to "limit upgrade potential". S&P had previously expected that acquisitions would be current cash generators, and had not anticipated a \$1.25bn (US\$1bn) increase in debt to pre-fund acquisitions. However it also noted the financial "flexibility" enjoyed by News, owing partly to the US\$2bn equity investment commitment by JCI, the US telecoms group. Nikki Tail, Sydney

## SKF to supply Japan carmakers

SKF, the world's leading manufacturer of roller bearings, is to start deliveries to the Japan's domestic car industry after reaching agreement with Suzuki to supply front-wheel bearings for its home-produced models. SKF has supplied Japanese automotive plants outside Japan and manufacturing industry in Japan but had not broken into the country's car market. Japanese manufacturers have traditionally relied almost exclusively on domestic bearing makers. SKF supplies half Japan's bearings imports but its market share is only 1 per cent, while it enjoys about a fifth of the non-Japanese Asian market. Greg McIvor, Stockholm

# Iveco considers plants in Brazil and Argentina

By Haig Simonian, Motor Industry Correspondent

Iveco, the commercial vehicles arm of the Fiat industrial group, is in advanced talks on building new truck plants in Brazil and Argentina.

A decision on the projects, which together could cost more than \$200m, is expected before 1997. Fiat is also planning to spend \$200m to raise output at its new car factory in Argentina, which is near completion.

The schemes are all part of Fiat's strategy to broaden international coverage to exploit the expected surge in car and truck demand in South America. The group last week said it would spend an unspecified amount on a new car engine plant in Brazil.

Two Iveco management teams are working on the commercial and manufacturing implications of production in South America. It is believed they will recommend a substantial project involving new factories in Brazil, the continent's biggest truck market, and Argentina.

Industry sources say Iveco will favour starting in Brazil, which accounts for about half the continent's sales of about 100,000 trucks a year.

However, Iveco is expected to set up production in the north-southern Argentine market, which accounts for

about 13,000 units annually.

The Brazilian plant will specialise in medium-to-heavy weight vehicles, based on Iveco's current EuroTech range. The Argentine unit will build light-to-medium weight vehicles, based on the small Daily light truck range and the UK-built EuroCargo medium-weight model. Iveco, which used to build trucks in Brazil, has lost ground to rivals such as Mercedes-Benz, Volvo and Scania, which manufacture locally.

The investment in trucks will copy the example set in cars, where Fiat's Brazilian and Argentine factories will build different versions of the new Palio "world car".

Output of the four-door Palio, which is to be built at a new plant at Cordoba in Argentina, will be increased from 1,200 to 1,800 a day once production starts next year. A commercial launch is expected early next year.

In Brazil, where Fiat is spending \$1bn on the Palio, the company will build a new plant for new generation 16-valve engines for the new model. Output of three-door Palios at Betim started earlier this year and are planned to reach 2,000 units a day.

Iveco is believed to have examined an Argentine site in Cordoba, not far from Fiat's new car plant. The Brazilian



Making trucks including the EuroCargo (above) in South America would follow Fiat's Palio example

engine factory may also be near Fiat facilities in the state of Minas Gerais. Apart from

South America, the Palio range will be built in Poland, Turkey and India as the cornerstone in

Fiat's strategy to expand out-put beyond established European markets.

# EDS warns on computer date change

By Alan Cook

Most of Europe's larger companies have yet to modify their computers to avoid a disastrous systems collapse as the western world moves into the 21st century. More than one-third of board members are not even aware of the danger posed by the date change, despite widespread publicity.

These are the main conclusions of a survey carried out by Electronic Data Systems, the big US computing services company which manages data processing operations on an outsourcing basis for many of the world's largest organisations.

EDS quotes industry estimates of the total cost of making the essential modifications in Europe as \$600m.

The survey was carried out among 532 companies in May and June this year as full ignorance of the "millennium date change" became apparent. Mr Ian Taylor, the UK science and technology minister, for example, who has been mounting a campaign to raise awareness of the issue, found few participants at a meeting of European Union telecoms ministers in Brussels last month who understood the danger, including Mr Martin Bangemann, the research commissioner.

The problem concerns the way computer systems store dates.

To save expensive memory, most computer systems, especially those which have been in place for some years, store and process only the last two digits of any year: 96, for exam-

ple, to represent 1996. These computers will store the year 2000 as 00, but will not know which century it refers to.

EDS points out that all kinds of date-related calculations will be invalidated, with the consequences that pensions may not be paid, driving licences will be invalid and credit card payments will be overdue by 99 years.

Only 45 per cent of companies have plans for the date change, EDS discovered.

German companies were best prepared with 85 per cent having plans in place, while Italian groups were least ready, with only 38 per cent prepared.

The UK and Spain were among the best prepared, both with more than 70 per cent of companies having plans in place.

Mr Paul Clark, managing director for EDS technical services in Europe, said: "We estimate that many of those with plans in place will have severely underestimated the level of resource and funds required to fix the problem in the timescale."

"Governments across Europe as well as commercial organisations need to sit up and take notice as the infrastructures of the societies they govern could be severely disrupted."

Modifying the systems is not a simple operation because of the way individual programs interact with one another. EDS said it had signed a 54-month project management agreement with the US investment bank Morgan Stanley to prepare its systems for the millennium.

# Arjo cost cuts lift Getinge at halfway

By Greg McIvor in Stockholm

Getinge, the Swedish medical technology group, lifted first-half pre-tax profits from SKr227m to SKr288m (\$35.5m) following stronger than expected returns from its Arjo subsidiary, which was acquired last year after a fiercely contested takeover battle.

The company said sales at Arjo, the world's leading supplier of patient handling and hygiene systems and Getinge's largest division, fell 13 per cent from SKr790m to SKr687m. However, operating profits rose

from SKr92m to SKr127m, helped by cost-cutting.

Group turnover in the period advanced from SKr1.36bn to SKr1.7bn. Mr Carl Bennet, Getinge managing director, confirmed the company's earlier forecast that full-year profits would be between SKr490m and SKr500m.

The shares eased SKr1 to SKr112. Getinge has made a series of acquisitions in the past 18 months to become one of Scandinavia's largest medical technology groups.

However, first-half growth was held back by weak perfor-

mance in the distribution division, where operating profits slid from SKr38m to SKr19m. Mr Bennet blamed the decline on a decrease in the total market, primarily in the health-food product line - which had shrunk 15 to 20 per cent this year.

Involved sales in distribution dropped 22 per cent, from SKr584m to SKr455m. Measures had been taken to improve efficiency and reduce costs, but market conditions would remain difficult, the company said.

It added that development in its sterilisation (pharmaceuti-

cal industry) and disinfection business areas had been positive. However, operating profits in sterilisation (healthcare) dropped from SKr35m to SKr27m as a result of lower activity and project delays in eastern Europe and Asia-Pacific.

Getinge was confident its \$77m bid for MDT Corporation of the US would succeed after it last week raised its tender offer from \$4.40 a share to \$5.50.

The deal would increase its share of the US sterilisation and disinfection market from 2 per cent to 25 per cent.

**NOTICE OF MERGER**

To the holders, issuers and guarantors of bonds, notes, certificates, warrants, and other instruments in respect of which The Chase Manhattan Bank, N.A., and other instruments in respect of which Chemical Bank, London Branch has been appointed as Trustee, Fiscal Agent, Issuing Agent, Principal Paying Agent, Paying Agent, Warrant Agent, Conversion Agent, Registrar, Agent Bank, Process Agent, Custodian, or in any other or similar capacity and to trustees, paying agents, custodians, swap counterparties and other parties in relation thereto:

NOTICE IS HEREBY GIVEN that on July 14, 1996 The Chase Manhattan Bank, N.A. merged with and into Chemical Bank. The name of the surviving bank is The Chase Manhattan Bank. The Chase Manhattan Bank, London Branch will automatically continue to perform all of the above appointments on the same terms and its specified office and address for correspondence is:

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**CHASE**

The Chase Manhattan Bank  
July 16, 1996

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Class	Interest Accrual Rate	Coupon Amount (US\$)
A	5.746090%	U.S.\$62,827.03
B	5.866090%	U.S.\$60,116.26

Labor Determination Date: 07/11/96  
 Accrual Period: 07/15/96 to 08/14/96  
 Date in Accrual Period: 31

These Interest Accrual Rates and Coupon Amounts should be used when determining the interest payable on Thursday, August 15, 1996.

Bankers Trust Company  
as Trustee

July 16, 1996

This announcement appears as a matter of record only. 16 July, 1996

We are pleased to announce that

on 15th July, 1996

**Chemical Investment Bank Limited**

changed its name to

**Chase Manhattan International Limited**

**Chase Investment Bank Limited**

has kept its name.

Chase Manhattan International Limited and Chase Investment Bank Limited are subsidiaries of The Chase Manhattan Corporation and remain UK-incorporated institutions authorised by the Bank of England and Regulated by the SFA.

**CHASE**

COMPANIES AND FINANCE: ASIA-PACIFIC/INTERNATIONAL

# WMC to expand Olympic Dam operation

By Nikki Tait in Sydney

WMC, the Australian resources group which has shortened its name from Western Mining, is to go ahead with a A\$1.26bn (US\$996m) expansion of its large Olympic Dam mine operation in South Australia.

The move could more than double the mine's copper output from around 85,000 tonnes a year at present to about 300,000 tonnes, with the accompanying uranium production increasing from 1,500 tonnes currently to around 3,700 tonnes.

This would add more than 1

per cent to present global copper production and 7 per cent to uranium output.

Gold production from the mine site would also rise, from about 30,000 ounces at present to 75,000 ounces, with silver output going up from 400,000 ounces to 850,000 ounces.

Total ore throughput would almost triple from 3m ounces to 8.5m ounces a year by 2001 under the proposed plan.

Approval for the expansion at Olympic Dam, which had been anticipated for several months, was announced in Adelaide yesterday by Mr Hugh Morgan, WMC managing director. He said that the

expenditure - the largest single capital investment made by the mining group in its 63-year history - would occur over a five-year period, and was expected to create more than 1,000 construction jobs, plus 200 extra permanent jobs.

Funding would come from a mixture of internal cash flow and external borrowings. Gearing is expected to increase as a result, but Standard & Poor's, the US-based rating agency, affirmed the mining company's long-term and short-term credit ratings, at A and A1 respectively.

S&P said that while gearing could move temporarily into

the 35-40 per cent range - above the management target of 30 per cent - this would be underpinned by WMC's fairly diverse earnings base.

The Olympic Dam ore-body was discovered more than two decades ago, and came into production in mid-1988. It is said to be the world's highest known uranium deposit and the sixth largest copper deposit.

WMC said that the investment decision had not been affected by the recent turmoil in the copper markets, resulting from the Sumitomo affair - with the decision being based on its perceived long-term

"fundamental" outlook for the metal. The economics of the mine expansion have also been aided significantly by the sharp improvement in uranium prices, and the fact that uranium production steps up more or less in line with copper output at Olympic Dam.

The company's aim is to take production to 150,000 tonnes of copper a year, from an ore throughput of about 5m tonnes, by 1999.

The company said that it would be seeking approvals to go as high as 350,000 tonnes of copper a year, but solely to "provide flexibility for future expansion".

# Napocor lifts profits 39% ahead of sell-off

By Edward Luce in Manila

National Power Corporation (Napocor), the Philippines' largest electricity generation company, reported a strong rise in net earnings in the first six months of 1996.

The group said it benefited from a drive to boost profits before its planned privatisation next year.

Lower interest payments on debt, and changes in the regulations allowing Napocor to pass on adjustments in purchase prices to electricity distributors, pushed net profits up 39 per cent, from P2.4bn (US\$127.5m) to P3.3bn (US\$166.5m). Net revenues rose 10.8 per cent, to P29.1bn pesos. Overall energy sales rose 6.3 per cent.

Other changes, including the right to pass on fuel price adjustments and losses from currency fluctuations to the consumer, also lifted Napocor's margins. The company is attempting to "unbundle" its tariff structure to make it more transparent and isolate previously hidden subsidies.

"We are trying - I think successfully - to maximize Napocor's profitability in advance of privatisation next year," said Mr Raul Tan, head controller. "We have been helped by changes in price adjustment rules and by the appreciation of the peso against the

# Improved prices offset output fall at Gengold mines

By Mark Ashurst in Johannesburg

Gengold, the South African gold mining arm of Gencor, posted a 28.3 per cent rise in attributable income to R56.7m (\$12.7m) for the quarter to June, as higher gold prices offset a 5 per cent fall in total production.

Operating income for Gengold mines Beatrix, Kinross, Leslie, St Helena and Winkelhaak rose 16 per cent to R11.2m for the period, compared with a 7 per cent increase in the previous quarter. Working costs climbed to R394m, the third consecutive quarterly rise, although management predicted lower costs this quarter.

Senior executives are to begin touring Europe and the US today to win investors' support for a plan to merge Kinross, Leslie, Bracken and Winkelhaak mines by October.

"This will facilitate a proper autonomous gold mine company management in the fullness of time," Mr Tom Dale, managing director, said.

The mines currently pay management fees to Gengold, but would benefit from "substantial tax breaks by converting management fees into cash and then into equity" in the

merged Evander company. Gengold would be restructured into two separate investment vehicles: Evander, and a second in the Free State.

The merger could be followed by a R260m to R300m rights issue to finance capital expenditure at Winkelhaak mine, which incurred a R8.8m loss after paying for 1,250 redundancies. Output fell 28 per cent, which largely accounted for a 2.5 per cent fall in Gengold's total production, to 1.58m tons.

The company said investigations at Kinross had uncovered "an organised gold theft syndicate" allegedly involving 24 of the 170 employees at its smelter. These had been suspended pending criminal charges.

Kinross's earnings per share rose 80 per cent to 122 cents a share from 68 cents, and the mine resumed dividend payments, which were suspended last year, for a final payout of 80 cents a share.

Production at flagship mine Beatrix was flat, while working costs rose 4 per cent to R102m. Earnings per share dipped from 39 to 34 cents, and the final dividend was 70 cents, lifting the total to 133 cents from 123 cents.

# Manila mall operator loses novelty value

New foreign ownership laws could hit the shares and fortunes of SM Prime



Shopping around: a new mall opens in Manila

As the Philippines' largest shopping mall operator, SM Prime offers foreign portfolio investors the nearest thing they can get to a retail stock. Debarred from acquiring direct shares in the country's surging retail sector, foreigners have pushed SM Prime's share price up to near record levels. At a P/e of 37, the group is trading at almost double the Philippine stock market's level.

All that, however, could be about to change. As Congress debates the final stages of legislation to open the country's retail industry to 100 per cent foreign ownership, SM Prime is about to lose its enviable status.

At the same time, Uniwide, a wholesale discount seller with retail outlets and shopping malls around the country, plans a market listing between now and September in what will be the largest Philippine IPO this year.

Uniwide's IPO - totalling between 2.5bn and 3bn pesos (\$95.5m-\$114.6m) - and the impending retail liberalisation legislation are seen as a threat to SM Prime's ascendancy. Shares in the mall operator, in other words, could also have a downside.

"There are some negative implications for SM Prime from the changes in the law," says Ms Gina Manzano, analyst at Asia Equity Securities in Manila. "But it should also be remembered there are big opportunities for SM Prime as well."

Of these, the most obvious is the opportunity for new cus-

tomers. In the build-up to liberalisation, dozens of foreign boutique and department stores are scouting around Manila's fertile shopping ground for space to lease. With more than 1m square metres of indoor shopping mall - mostly in Manila - SM Prime is the biggest lessor in the Philippines.

Foreign companies, notably the big Japanese department stores, have already expressed an interest in a market which is growing by between 18 and 20 per cent a year. Few, though, are expected to go it alone.

SM Prime, which boosted net profits last year by 40 per cent to 1.51bn pesos, is an obvious joint venture partner. Earlier this year it took a 39 per cent stake in a wholesale chain led by Makro, the Dutch chain. Retail ventures are expected to follow with the introduction of the new law.

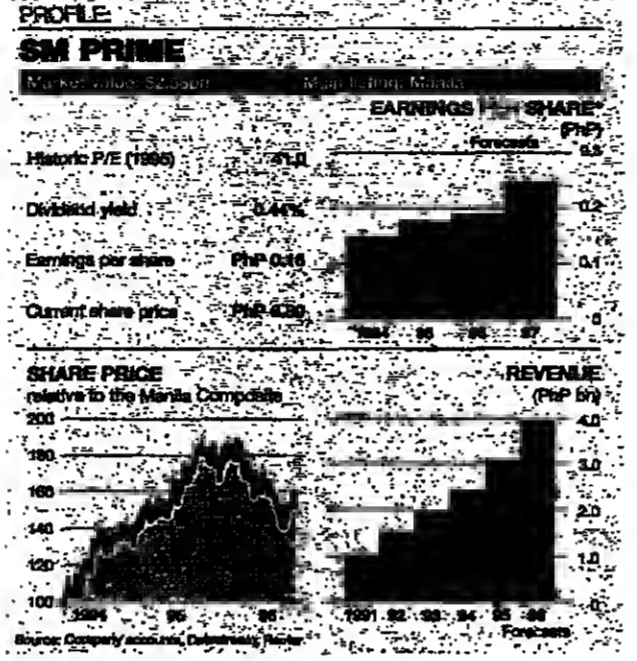
"We don't see the new law as a threat. We see it as an oppor-

tunity," says Mr Jose Sio, chief finance officer at SM Prime. "The market is growing so quickly that there is plenty of room for foreign operators. We think there is also a great deal to learn from them."

As the pioneer of the US-style indoor shopping mall in the Philippines, SM Prime has little to learn about economies of scale. Indeed, with plans to build a 500,000 sq m mall in Manila Bay, to be called the Mall of Asia, SM Prime will own the largest mall in the world by its completion in 2000. Mega Mall, its 330,000 sq m centre in Ortigas, the capital's second business district, is already the largest in Asia.

At any one time more than 1m customers are browsing through SM Prime's Philippine malls.

Economies of scale have also brought SM Prime financial advantages, including a centralised purchasing system



enabling it to build malls at a big discount, and strong operating cash flows which have kept its debt-equity ratio to below 10 per cent. But there are also disadvantages.

As a mass operator which appeals to the country's low to middle-income groups, SM Prime is badly positioned to cash in on the expanding high end of the shopping mall sector. While the company's vast malls serve as a model of efficiency to local competitors, the buildings are not exactly a paragon of quality.

"The first thing you notice about Mega Mall is its size," says Ms Meg Francisco, chief researcher at Deutsche Morgan Grenfell. "The second is its low quality. It packs people in but it is not an experience for the discerning. The high-spending segment of the market, which is also the fastest growing, prefers something more upmarket."

Having almost saturated the Manila middle-income market,

SM Prime is concentrating on provincial sites, with plans to open four regional malls over the next two years.

Critics of SM Prime say this is a strategy of diminishing returns.

"Eventually, the hottest competition will be at the luxury end of the market where Japanese department stores can excel," Ms Francisco says. "SM Prime is not best placed to compete at the value-added game."

For 72-year-old Mr Henry Sy, the Chinese-Filipino founder and chairman of the group, the chances of a share downside are probably of little concern. With a free-float of only 17 per cent and no debt to speak of, the company can generate much of its capital from the interest on its cash holdings. The company's cash-equity ratio is 28 per cent. SM Prime can easily afford to diversify.

Edward Luce

# Recovery at most Korean banks

By John Burton in Seoul

A surge in interest income and a fall in loan loss reserves helped South Korea's 26 commercial banks recover to report a total net profit of Won437.5bn (\$37.5m) for the first half of 1996, against a loss of Won72.5bn a year ago.

The 15 national banks reported combined earnings of Won340.9bn against a loss of Won56bn in 1995, while the 10 provincial banks surged from Won22.4bn to Won66.6bn. Total operating income grew 13 per cent to Won2,350bn, while reserves for bad loans, securities losses and retirement liabilities fell 17 per cent to Won1,780bn.

Kookmin Bank, a former state-run retail bank privatised in 1994, led with profits of Won100bn, up 119.5 per cent. Commercial Bank of Korea, which has aggressively reduced its bad loan portfolio, rose 127 per cent to Won70.3bn. Shinhan Bank reported a 21 per

cent rise to Won75.5bn.

Korea Exchange Bank, also privatised in 1994, showed the highest earnings growth among national banks, with profits ahead 1,000 per cent to Won73.7bn. Cho Hang Bank rose 423 per cent to Won63.8bn, while Hana Bank fell 43 per cent to Won17.6bn. Hana soared 196 per cent to Won30.5bn, while Boram surged 508 per cent to Won7.9bn.

Seoul Bank, which has the largest percentage of bad loans of total lending among the main banks, incurred a loss of Won69.4bn against Won33.8bn a year ago. Korea First, which was hurt by the bankruptcy of several main corporate clients last year, narrowed its loss to Won34.6bn from Won138.2bn a year ago. Losses also narrowed at Peace Bank of Korea, from Won27.5bn to Won14.7bn, and at Donghwa Bank from Won37.6bn to Won5.9bn.

Korea's recovered to Won14bn from a Won5bn loss.

Republic of Austria  
Federal Ministry for the Environment, Youth and the Family

SALE OF LOAN RECEIVABLES WITH NOMINAL VALUE OF ATS 6 323 MILLION

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loans to commercial undertakings and to municipal co-operatives in which commercial organisations were involved in the construction of sewage treatment plants. As part of the privatisation process, certain of these loans will be offered for sale. The loans for sale have the following characteristics:

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Loans to commercial organisations

- Total Nominal Value ca. ATS 2 507 million
- Average remaining life 4.5 years (duration)
- 23 Borrowers (each with borrowings over ATS 20 million)

Loans to Municipal Co-operatives

- Total Nominal Value ca. ATS 3 816 million
- average remaining life 8 years (duration)
- 25 Borrowers (each with borrowings over ATS 20 million)

The loans can be combined into packages with varying remaining lives and may also be purchased individually.

Offers should be submitted in the period from 19 July 1996 to 23 September 1996.

For further information regarding loans, borrowers, loan conditions and securities please contact Price Waterhouse, Prinz-Eugen-Strasse 72, A-1040 Vienna, Austria, Tel +43 1 50188 358, Mr. Bernhard Haider. In addition to a prospectus containing more detailed information, a data room will also be made available to interested parties in which the documentation assisting the valuation and offer process may be viewed as from 19 August.

GRT Price Waterhouse

July 1996

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July 16, 1996, London  
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JAVICO LTD

Pentland offer for a

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Upbeat Sha

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US climbs to 25.6m

BT US

# Pentland rejects \$93m offer for associate

By David Blackwell

Pentland, the sportswear and consumer products group, yesterday threatened to spoil an agreed takeover of Authentic Fitness Corporation, a US associate company, by rejecting a \$93m offer for its 23 per cent holding.

Mr Stephen Rubin, Pentland's chairman, resigned yesterday as a director of AFC, maker of Speedo performance swimwear in the US, after voting against the offer from Warnaco, the US sports and underwear company.

Warnaco's offer comes as more than 40 national swimming teams line up in Speedo costumes for the Olympic

Games, which open in Atlanta, Georgia this week.

Speedo, based in Nottingham, is owned by Pentland. This year it launched a revolutionary new fabric for its performance swimwear, which has more than half the world market. Known as Aquablate, it has less drag than human skin, and could lead to top swimmers wearing all-over suits for the first time.

Warnaco, licensed to manufacture under brand names including Calvin Klein and Fruit of the Loom, sold off AFC in 1990. It is offering 0.52 shares per AFC share, pricing the bid at \$40m at yesterday's midday price on the New York stock exchange of \$22.13.

Mrs Linda Wachner, chairman and chief executive of both Warnaco and AFC, has a stake of about 13 per cent in each company. She said the offer would not be raised and there would be no cash alternative.

Warnaco has raised the offer once, from 0.725 shares per AFC share. However, its share price has fallen from more than \$81 at the beginning of June.

Mr Frank Parrant, Pentland finance director, yesterday described the offer as "fairly opportunistic" and undervaluing AFC, which was "a super company, doing well for us". AFC said it was disappointed by Mr Rubin's "negative vote."

# Biotechnology sector suffers further blows

By Simon Kuper

The British biotechnology sector, a favourite among investors for almost two years, suffered three blows yesterday to add to other recent setbacks.

The share price of British Biotech, the market leader, fell below the £20.50 a share price of a £143m rights issue due to close tomorrow. At last night's close of £20.40, down 18p, they are 38 per cent below their peak of £32.85 in May.

Separately, Therapeutic Antibodies, the US-based biotechnology company, said it would raise just £22m when it

floats on the London Stock Exchange next Tuesday, 58m less than it had intended.

In another development, several fund managers said Axis Genetics' planned £12m private placing was overpriced. Hoare Gowett, broker to the company, denied the placing was in trouble.

Biotechnology stocks have been falling for almost a month, prompted in part by a flood of share issues.

The companies make losses and promise profits when their products reach the market.

Analysts and fund managers said institutions which had

sub-underwritten British Biotech's entire £143m rights issue from Kleinwort Benson would probably be left holding millions of pounds worth of the stock. The issue is the largest in the sector.

However, the sub-underwriters include many of the largest shareholders in British Biotech, among them Morgan Grenfell, Mercury Asset Management and Legal & General Assurance. The closing time for take-up of the rights is 3pm on Wednesday. Yesterday, British Biotech all-paid - the rights to take up shares in the issue - fell 18p to just 2p.

# Upbeat Shandwick ahead



Dermot McNulty, chief executive, (left) and Peter Gummer, chairman: unveiled Mastercard deal

By Jane Martinson

Shandwick International, the public relations group, yesterday announced a global deal with Mastercard International, the credit card business, as it revealed double digit growth in the US, Europe and Asia in the six months to April 30.

Mr Roger Selman, finance director, said he expected the number of multinational accounts to grow over the next few years. The group made a similar deal with Digital Equipment six months ago.

In the first half, Shandwick lifted interim pre-tax profits 11 per cent to £3.57m (£3.66m).

Operating income from fees and commissions rose almost 13 per cent to \$96.8m (£52.8m). It increased 10 per cent on a constant currency basis, because of a stronger US dollar. Turnover, which includes some costs of business, rose 8 per cent to £99.2m (£82.3m).

Operating profits rose 9 per cent to £6m (£5.49m). New business in the US particularly eroded overall margins which fell just over 1 percentage

point to 16.7 per cent.

However, a focus on the group's US operations in Washington and New York over the past year had resulted in growth of up to 30 per cent, said Mr Selman. The increase in staff employed, including a senior politician in Washington, had reduced regional margins by 2 percentage points to 17 per cent.

In the UK operating income grew 6 per cent to £13.6m (£12.8m), while an operating margin of almost 21 per cent was maintained.

# Ellis climbs to £25.6m

By Geoff Dyer

Ellis & Everard, the chemicals distributor, increased annual pre-tax profits by 22 per cent despite volatile movements in raw material prices.

Pre-tax profits before exceptional items advanced to £26.6m (£29.9m) in the year to April 30. The previous year's figures also included a £7.7m charge from the sale of its swimming pool equipment and food hygiene businesses.

Operating profits from continuing businesses rose 16 per cent to £26.3m on turnover 11 per cent higher at £371m.

Mr Peter Wood, chief executive, said the group had had to deal with commodity polymer prices which had doubled at one stage during the year and then halved at a later stage.

In April the group paid £4.35m for P&S, a food ingredients distributor which will double its sales to the food industry. In May it bought Gil-train Plastics, which distributes the PET polymer, for £4.15m.

Mr Wood said the group would continue to look for buys in markets it had targeted, such as food and polymers, but it was getting harder to find suitable ones.

The group's European operations increased sales by 15 per cent and profits by 20 per cent, while in the US profits advanced 16 per cent and sales 12 per cent.

# US team acquires Mercury offshoot

By Alan Cane

Mercury Communications, the UK's second largest telecommunications operator, has sold its paging business, Mercury Paging, to a US management team for £20m (£93.6m). Mercury's share of the proceeds is £20.8m.

The move is part of Mercury's strategy of focusing on its core strengths in long distance telephony and specific business sectors. It said yesterday that paging had been a profitable business with over 250,000 users, including 100,000 customers for its "calling party pays" service.

It was, however, no longer central to its strategy.

Mercury owned 51 per cent

of Mercury Paging, the other shareholders were Mobile Telecommunications Technology Corporation (29 per cent) and Motorola (20 per cent). All three groups have sold their shares to the new team.

The new group is led by Mr Richard Reiss and Ms Janice Fuellhart. Mr Reiss is a managing partner of Cumberland Associates, a private investment firm.

The new venture is jointly financed by the management and a group of international investors led by CS First Boston and Metropolitan Life Insurance.

The operator will be renamed Page One Communications.

# BTR pays £20m for US valve maker

By Ross Tleman

Undeterred by investor concern over its debt burden, industrial conglomerate BTR has spent £20m (£31.2m) to reinforce its strength in the manufacture of specialised industrial valves.

It has bought Vogt Valves, based in Louisville, Kentucky, from the Henry Vogt Machine Company, a private US engineering group. The business, which makes low-pressure valves for refining, petrochem-

ical and similar plants, will be integrated with BTR's Edwards Valves business in Raleigh, North Carolina.

BTR has annual valve sales of £250m. It claims a 15 per cent share of the world market for valves used in processing plants, and 13 per cent of the market for valves in the oil and gas industry.

Edwards, which specialises in high-pressure valves used in electricity generating plants, is number two in the US to Velan.

## RESULTS

Company	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends/Shareholders	Total for year	Total last year
Apta Healthcare	11.8 (5.14)	1.5 (0.69)	1.57 (1.2)	0.5	Sept 4	0.5	0.9	0.9
Automated Security	5 mths to May 31	77.3 (80)	2.28 (11.7)	3.4 (11.3)	nil	nil	-	nil
Bidos	15 mths to Mar 31	3.71 (0.25)	1.95 (0.108)	44.8 (4.18)	-	-	-	-
Edwards & Everard	Yr to Apr 30	584.1 (513.5)	25.6 (13.3)	20 (8.3)	0.2	0.2	5.7	8.4
Shandwick Int'l	6 mths to Apr 30	89.2 (82.3)	3.57 (3.22)	1.8 (1.7)	0.43	0.43	-	1.3
Wesco Management	6 mths to June 30	807 (575.6)	75.3 (71.9)	12.3 (12.2)	-	-	-	-
Wessac Trust	Yr to Mar 31	1.49 (1.04)	0.066 (0.183)	0.214 (0.9)	-	-	-	-
Investment Trusts	NAV (p)	Shareholders	EPS (p)	Current dividend (p)	Date of payment	Compendium dividend	Total for year	Total last year
Handerson Lightland	-	-	-	1.5	Aug 30	1.45	-	5.9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. \*After exceptional charge. †On increased capital. \*Comparatives restated. †Comparatives for 12 months. ‡First interim.

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INTERNATIONAL CAPITAL MARKETS

Treasuries lower ahead of Greenspan speech

By Lisa Branstetter in New York and Conner Middelman in London

US Treasuries posted modest losses in thin trading early yesterday as investors awaited testimony on Thursday from Mr Alan Greenspan, chairman of the Federal Reserve, about the state of the economy.

Most on Wall Street expect the Fed to raise short-term interest rates by at least 25 basis points at the August 20 FOMC meeting because of the sharp increase in employment over the past five months.

Traders were also awaiting data on June consumer prices and industrial production due today to help them assess the strength of the economy.

Less attention was paid to the equity market yesterday, although share prices continued to fall. Last week, bonds gained as investors fled to the safety of the bond market as stock prices tumbled.

advances money market rate, to 2.70 per cent.

Although the move was widely seen as a purely technical reaction to firmer Dutch money market rates, it has had an important psychological impact on European markets, fuelling speculation that the European easing cycle has come to an end and interest rates are set to rise.

GOVERNMENT BONDS

"Short-term, we would be tempted to say it's all a storm in a tea cup, but the Dutch move is bound to put pressure on European markets and European convergence trades short-term, especially set against the US backdrop," said Mr David Brown, chief European economist at Bear Stearns.

However, he noted that higher rates across Europe would make it more difficult

for governments to meet the Maastricht criteria for European monetary union on budget deficits and public debt.

A "double whammy" of fiscal and monetary tightening could push Europe into a downward spiral of slower growth, higher interest rate servicing costs and higher, not smaller, budget deficits ahead, he warned.

"It is fairly safe to assume that the first substantive rate hike in core Europe is still a long way off."

Interest rate jitters took a particularly heavy toll on Europe's high-yielding bonds, which have been the best performing markets in recent months.

In Italy, last week's political tensions, coupled with fading hopes of a rate cut and the lira's resulting weakness against the D-Mark, prompted selling yesterday.

"Investors have spent months waiting for good news on the ERM and rate cut

fronts, but those hopes have evaporated and we saw some serious profit-taking today," said one dealer.

As a result, Italian 10-year bonds underperformed the rest of Europe, their yield spread over German bunds widening by 10 basis points from Friday to 289 basis points.

The Swedish government bond market also suffered amid fears of higher European rates and krona weakness: Sweden's 10-year yield spread over bunds widened by 5 basis points to 184 basis points.

German bunds held up better than most European markets, buoyed by the stronger D-Mark, although sentiment was dampened by worries over Russian President Boris Yeltsin's health, and interest rates.

The main focus today will be the auction of its new six-month money market bills, dubbed Bu-Bills. The central bank is expected to offer

DM100n of bills yielding around 15 to 20 basis points below Libor.

Some observers felt that demand might be dampened by the uncertain rate outlook in Germany, but others thought strong international demand for the paper would ensure its absorption. Mr Christoph Ansham, bond strategist at Union Bank of Switzerland in Frankfurt, expects strong interest from international investors, some of which are establishing so-called bar-bell trades, where they sell the medium maturities and buy the short and long ends of the yield curve.

UK gilts also weakened yesterday, weighed down by looming supply - an expected 24bn of bonds in the last week of July - and dragged lower by the US market. The UK 10-year yield spread over Germany widened to 157 basis points from 154 on Friday.

Mexico FRN rated investment grade

By Samar Iskander

Mexico has been awarded an investment grade rating for its \$3bn floating-rate issue by Moody's, the international credit rating agency. The transaction was structured with the help of the Federal Reserve Bank of New York. The issue's rating is higher than the Be2 "sovereign ceiling" on Mexico's debt rating.

Mexico's sovereign ceiling reflects the "transfer risk of foreign currency", Moody's explained. In the case of the new structured deal, this transfer risk was reduced by the diversion on a daily basis of payments owed to Mexico directly to the New York Fed.

According to the rating agency, "key structural features... include arrangements requiring existing and future purchasers of most Pemex national oil company oil exports to make payments directly to Swiss Bank Corp. and SBC's obligation to remit these payments daily" to the New York Fed.

Moody's said holders of the new notes would benefit from "credit support mechanisms that are substantially similar

to the arrangements supporting certain medium-term swaps between Mexico and the US Treasury.

In case of default by Mexico on its debt, the money held by the Fed will be transferred to the trustee for immediate payment to note holders.

In making its assessment, Moody's also looked at different scenarios of oil price changes, as well as oil export cash flow. It said existing holders of Pemex bonds would not be affected by the transaction, because Pemex receivables are not given as collateral.

However, Moody's warned that changes in the ratings of Mexico or Pemex, and its assessment of Pemex's ability to continue exporting sufficient oil, may affect the Be2 rating of the structured notes.

It also said its prospective rating addressed the likelihood of full payment of interest within six months of scheduled payment dates and the ultimate principal payment less than one year following the expected final payment date.

J.P. Morgan Securities and SBC Warburg, the investment banking arm of SBC, are co-arrangers for the offering.

UK sets new benchmark with \$2bn offer of five-year notes

By Samar Iskander

The United Kingdom yesterday took advantage of attractive market conditions to announce the issue of \$2bn of five-year notes, as part of the Bank of England's "routine debt management".

Expected to be priced today to yield 5 basis points over the benchmark US Treasury note, the UK paper looked expensive in absolute terms, but met strong demand on a when-issued basis, with the spread narrowing to 4 basis points.

"This is a new benchmark for the eurodollar market," said one bond salesman. "Everybody felt they had to buy it." The total amount was well oversubscribed, with lead managers Goldman Sachs and

SBC Warburg registering orders for more than \$3.5bn.

The UK is a "very rare borrower" of the highest quality, said a syndicate manager at SBC Warburg. "This is only its second ever eurodollar straight bond."

INTERNATIONAL BONDS

"We are delighted with the market response," said Mr Ian Plenderleith, Bank of England executive director. "Despite being tightly priced, [the issue] received a very positive market response."

Proceeds of the new bond will refinance part of a \$4bn floating-rate issue maturing at the end of September.

Elsewhere, Austria's OKB followed the EIB's lead and tapped the Ecu market for Ecu250m. Lead manager SBC Warburg said there was good demand from European institutions and Swiss retail buyers, owing to a large number of recent Ecu bond redemptions.

The Ecu market has attracted little interest of late because of uncertainty over the timing and technical aspects of European monetary union.

SBC Warburg said OKB's issue documentation had been carefully worked to reassure investors that the bonds would not be redeemed in Ecu component currencies but in euros - as the future single currency - at the official parity set out in phase 3 of Ecu.

New international bond issues

Table with columns: Issuer, Amount, Coupon, Price, Maturity, Yield, Spread, Book-runner. Lists various international bond issues from countries like UK, Austria, and others.

WORLD BOND PRICES

Table showing benchmark government bonds for Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, Spain, Sweden, UK Gilts, and US Treasury.

EURO FUTURE OPTIONS (LIFE) DM250,000 points of 100%

Table showing Euro Future Options for various countries including Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, Spain, Sweden, and UK.

FT-ACTUARIES FIXED INTEREST INDICES

Table showing FT-Actuaries Fixed Interest Indices for various maturities and currencies.

US INTEREST RATES

Table showing US Interest Rates for Treasury Bills and Bond Yields across different maturities.

UK NATIONAL UK GILT FUTURES (LIFE) £250,000 200ths of 100%

Table showing UK National UK Gilt Futures for various maturities.

FT FIXED INTEREST INDICES

Table showing FT Fixed Interest Indices for various maturities and currencies.

BOND FUTURES AND OPTIONS

Table showing Bond Futures and Options for various countries including France, Germany, and Japan.

US NATIONAL US TREASURY BOND FUTURES (CBT) \$100,000 200ths of 100%

Table showing US National US Treasury Bond Futures for various maturities.

FT/ISMA INTERNATIONAL BOND SERVICE

Table showing FT/ISMA International Bond Service for various countries and maturities.

UK GILTS PRICES

Table showing UK Gilts Prices for various maturities and coupon rates.

Other Fixed Interest

Table showing Other Fixed Interest for various countries and maturities.

Salomon issues Russian equity call warrants

By Samar Iskander

New call warrants allowing international investors easier access to the Russian equity market have been launched by Salomon Brothers.

The issue lets investors circumvent the local stock custody system which can make buying physical stock complicated and time-consuming.

The 12.5m European-style warrants have been issued on a basket of five shares - Chernogornet (oil), Irkutskenergo (utilities, electricity), Lukoil

(oil), Mosenergo (utilities, electricity), and Rostelecom (telecommunications).

The warrants have a multi-currency structure and can be traded and exercised in dollars, D-Marks, euros and Swiss francs, reflecting the most likely origins of demand for the product.

Salomon Brothers is applying to list the warrants in Frankfurt and on other German exchanges. The minimum trading size of the calls, which can only be exercised on the day they mature, is 300.

Large advertisement for 'SOLID' featuring a 'FINANCIAL II' logo and the text 'An unce revival a'. The ad is partially cut off on the right side of the page.

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FINANCIAL TIMES SURVEY

LEBANON

An uncertain revival ahead

Beirut waits on the decisions of outside forces and interests before charting its own future, David Gardner argues

For 17 days in April, Lebanon yet again became the preferred battleground of a Middle East still far from peace. Israel bombed the country from the air, land and sea, in response to the actions of the Shi'ite Muslim guerrillas of Hizbollah, licensed by Syria in their fight against Israel's occupation of southern Lebanon. This, essentially Israeli-Syrian conflict has placed a question mark against Lebanon's ability to recover from the 1975-90 civil war and rebuild itself so as to become again the thriving services and financial entrepot it was before.

And yet... The Lebanese have proven over the years to be extraordinarily resilient, and the April bombardment forced them to rediscover themselves as a nation. This was a sense they all but lost in the tribal slaughter of the civil war between and within the country's 17 minority communities. That war brought Lebanon under Syrian hegemony and left 12 per cent of its territory under Israeli occupation. "Never in the history of Lebanon since its independence have the people been so united," says Mr Fouad San-loura, finance minister in the government of Mr Rafiq Hariri. This great upsurge of popular unity, embracing all sections of the community from Shi'ite fundamentalists to the Maronite Christians, allies of Israel during the civil war in a vain attempt to preserve their dominance of Lebanon, has raised hopes that, yet again, the Lebanese will be able to turn a disaster into an opportunity. But in May, Israelis elected Mr Benjamin Netanyahu at the head of a hardline government led by Likud, which includes as ministers Mr Ariel Sharon and Mr Raphael Eitan, the generals who "tagged" the

He and others in the government question whether Lebanon can begin emerging from its subordination to Syria while the risk of further conflict with Israel persists. Or indeed whether it can recover its pre-war status as the West's window on the Middle East and re-establish itself as the region's main financial centre. US and French mediation ended April's hostilities, not with a ceasefire but by writing down the rules of engagement agreed verbally after Israel's last big incursion into Lebanon in July 1993. This allows Hizbollah to continue its attacks on Israeli forces inside the so-called security zone Israel occupies as a buffer for its northern border, and Israel to retaliate, provided neither side fires on or from civilian positions. Approval was given to a text covering arrangements to monitor the ceasefire by officials from the US, France, Israel, Lebanon and Syria in Washington on July 12. Israel had intended to cause damage to Lebanon's re-emerging infrastructure on a scale that would force Beirut and Damascus to act against Hizbollah. Roads and reservoirs, power stations and bridges, as well as hundreds of Shi'ite homes in the south, were destroyed, and over 400,000 refugees were driven northwards. Yet Hizbollah emerged not only intact, but with greatly enhanced prestige for standing its ground against Israel, whose land forces it harried out of most of Lebanon in 1983-85. Only 14 of its fighters were among the total of more than 200, mostly civilians, who died. "I'm not aware of any other movement which has this popularity," says Shekh Hassan Nasrallah, its 36-year-old leader, who said last month that Hizbollah wants to enter government. "We want to be part of the political life of Lebanon, to participate in its administration and in dealing with its problems," he said. Mr Hariri rules this part, but acknowledges its power.

"We said from the beginning [Israel] would not succeed in destroying Hizbollah, and they did not," Mr Hariri said in an interview last month. "They have tried all sorts of methods to get security on their northern border," he adds, but "none of their [acts of] aggression has worked." What would work, the prime minister contends, is for Mr Netanyahu to withdraw Israeli forces and give way to the reconstituted Lebanese army. "With no occupation there will be no resistance," he says, pledging to wind up Hizbollah in the same way all the other civil war militias were disbanded. "We are ready to assure security on our borders."

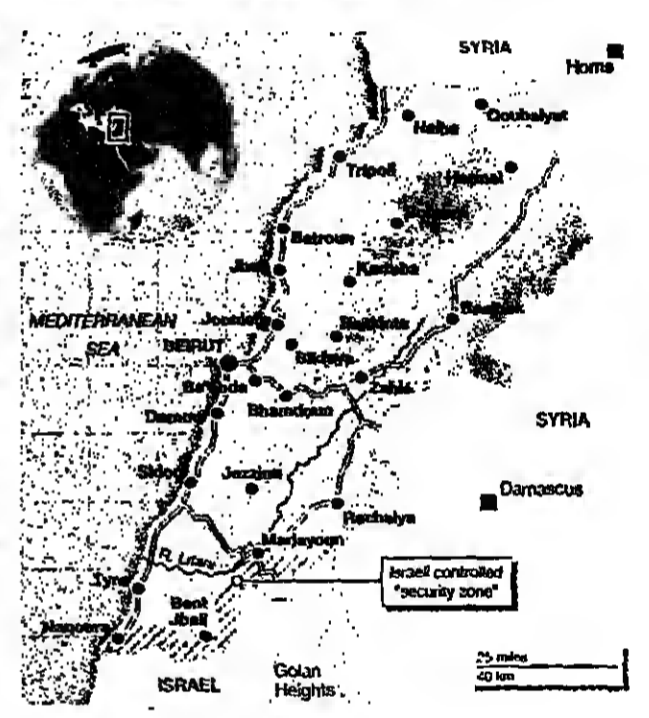
Mr Hariri did indeed warn Hizbollah in May against escalating the conflict in the south, a move seen then as the first step towards ending the guerrilla. But Mr Netanyahu's election, and the inclusion in his government of Mr Sharon who in April advocated taking all of south Lebanon up to the Litani river, has given Hizbollah a new lease of life.



Reconstruction in Beirut; but it must extend to the rest of the country riven by years of civil war and battered by Israeli attacks

In these circumstances, no government in Beirut - much less one under the tutelage of Damascus - would risk confronting an organisation which enjoys the legitimacy of a national resistance movement. President Hafez Assad of Syria, moreover, is unlikely to want to surrender his Hizbollah allies when the Netanyahu government has ruled out his main demand - the return to Syrian sovereignty of the Golan Heights, seized by Israel in the 1967 Arab-Israeli war.

Yet very senior officials in both Beirut and Jerusalem do not rule out entirely the possibility of Israeli withdrawal. This would not be as part of a peace deal, which Syria would not allow Lebanon to negotiate separately, but in compliance with UN Security Council Resolution 425, passed in 1978 and calling on Israel to return all Lebanese land. The move has three possible



KEY FACTS		
Area	10,452 sq km	
Population	3.08 million	
Head of state	President Elias Hrawi	
Prime minister	Rafiq al-Hariri	
Currency	Lebanese pound (L.L.)	
Average exchange rate	1995 \$1=LE 1821.45	
	1996 \$1=LE 1582.69	
ECONOMY		
Total GDP (\$bn)	10,315*	n/a
Real GDP growth (%)	7.0	3.0
Components of GDP (1994, %)		
Private Consumption	109.9	n/a
Total Investment	28.3	n/a
Government Consumption	11.8	n/a
Net Exports	-48.8	n/a
Annual change in:		
Consumer prices (%)	15.0	15.0
Money supply (M1,Q4, %)	9.4	n/a
Reserves minus gold (\$bn)	4,533	n/a
Total external debt (\$bn)	2,500	n/a
Government budget bal.(L.L. bn)	-2,496	-2,428
Current account balance (\$bn)	-4,808	-5,250
Exports (\$bn)	982	1,130
Imports (\$bn)	6,721	7,500
Trade balance (\$bn)	-5,739	-6,370
Main trading partners (1994, %)		
Saudi Arabia	12.8	n/a
Switzerland	12.2	n/a
UAE	11.1	n/a
Syria	8.1	5.3
Kuwait	8.6	n/a
Jordan	4.9	n/a
EU	15.1	44.9

(1)Year to date.  
(2)Estimates unless otherwise stated.  
(3)Derived from IMF figures.  
(4)Share of world trade.  
Source: EUJ Databank.

SOLIDERE THE LEBANESE RENAISSANCE SOLIDERE begins to deliver on Phase One targets

SOLIDERE, the \$1.8 billion Lebanese company established in May of 1994, is today, according to its Chairman and General Manager, Nasser Chamma, "well on its way towards implementation of the first phase of a comprehensive plan for the development and reconstruction of the heart of the Lebanese capital". The company, created to answer the complex and difficult issues surrounding the destruction which took place in the centre of Beirut during the civil war, has passed its early tests, and has now begun defining on the ambitious programme for the first phase of the project. The creation of SOLIDERE, as a private sector joint-stock company, deals with these issues through a novel concept: the association of property owners and investors, allowing real estate and cash assets to become available, thereby making it possible for the complex reconstruction of the city centre to move ahead. With a potential 100,000 shareholders, land assets appraised at a value of \$1.17 billion and a successful initial public offering which raised \$650 million, the company has been able to get its development projects underway, while also being successful in the popular, national and regional reconstruction programmes.

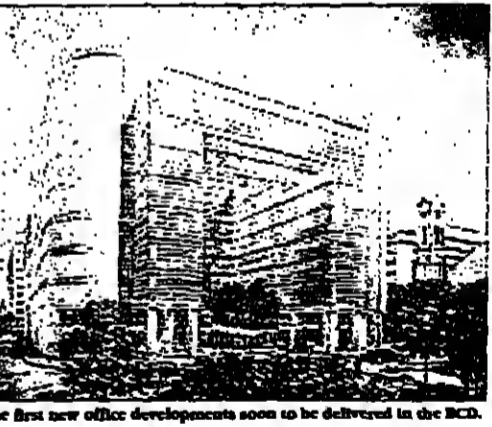
The development plans for the Beirut Central District, or BCD, are set out in a master plan which was the subject of popular and professional debate in Lebanon. The plans cover an area of approximately 1.8 million square metres of land in the historic centre of the capital, including some 608,000 square metres of land being reclaimed

from the sea. The project's location includes the banking district of Beirut, the heart of the Lebanese administration, commercial districts, residential areas and important tourist locations. The plans for the area's redevelopment centre upon a phased program to bring back significant life to the heart of the capital by the turn of the millennium, and gradually move on towards further expansion of the development program as Beirut recaptures its role in the region. During the first phase of the project, which lasts until 1999, the BCD will undergo some 1.34 million square metres of development, including some 833,000 square metres of restoration works, and more than 500,000 square metres of new development projects. With almost 60% of this development work already committed to, SOLIDERE is confident of meeting its overall targets for Phase One. The developments taking place cover a wide range of types of offices, commercial developments, hotels, residential development and others, which the company believes will create the necessary conditions and critical mass required to recreate a lively city centre. Analysing this, Chamma argues that SOLIDERE's project differs in certain key respects to other major international development projects which have taken place in this recent history. The difference he says arises from the fact that the SOLIDERE project is located in the central city centre, which has a proven track record and needs of the BCD. With its new road network and landscaped streets, the

economy, SOLIDERE does not have to combat negative market perceptions which come to the fore in development projects which take place on the outskirts of major cities. The obvious need for the Lebanese capital to be rebuilt is being underpinned by strong demand for property and development in the area, project will redefine the concept of city planning in Lebanon. The company believes that SOLIDERE's investment of \$500 million in equipping the BCD with this new infrastructure will add enormous value to the area. With these works well underway, visitors to the city centre can easily see the magnitude of what

which will bring in major tenants into the area, with the company recently announcing that RSCWA, one of the main administrative U.N. agencies for the Middle East, along with other U.N. agencies will be locating as long term tenants in the area during 1997. Other Lebanese government agencies, including the

developing a number of major projects during Phase One, all of which are designed to act as magnets in the newly restored area. One of these landmark projects, the Beirut Trade Center, Lebanon's first intelligent office building, will offer high quality office and conference facilities. Because of its location and the quality of its facilities, the company is aiming to set a new standard in office development in the country. Another development being undertaken by SOLIDERE, the reconstruction of the Souks area, involving over 200,000 square metres of commercial space, will provide a commercial and entertainment environment unparalleled anywhere in the city, and easily accessible from all parts of the Greater Beirut area. With new standards of development, and top international operators expressing an interest in the project, the management believe that their strategy is correct. While critics of the project have argued that the future success of Beirut depends largely on regional and geopolitical considerations, SOLIDERE sees this only as part of the overall picture. "Beirut and all of Lebanon need the city centre, irrespective of regional considerations," says Nasser Chamma. "The Lebanese are keen to see it rebuilt and active again. We are proceeding with considerable encouragement from the business community". SOLIDERE sees Beirut's regional dimensions as part of their Phase Two vision. "Our concern at the moment is to revitalise the city centre around the historic core and by the foundations for the future vision," says Chamma. "There are clearly very great regional benefits and



One of the first new office developments soon to be delivered in the BCD.

opportunities that will flow from a more stable Middle East and we look forward to that". With its strong financial performance over the past two years exceeding expectations for both 1994 and 1995, the company reported net income in 1995 of \$32.3 million. Shareholders in the



Some of the new restoration techniques are transforming war-torn buildings into monuments of beautiful architecture.



Beirut Central District showing infrastructure works in progress.

principally amongst Lebanese investors. SOLIDERE's strategy is built upon this phased approach towards development in the area. The first phase includes the completion of extensive infrastructure works in the BCD, aimed at equipping the project with modern state-of-the-art facilities. These are set to include the latest in technology available for the communications network in the area, as well as answering the transport and parking needs of the BCD. With its new road network and landscaped streets, the

administration of the Council of Ministers will take space in the BCD. Chamma insists that such agencies will act as "poles of attraction" for other agencies and services. Many other important Lebanese and international businesses are also set to establish in the area during Phase One. Most major Lebanese financial institutions have committed to a significant presence in the area, and Banque Audi, Lebanon's second largest bank, is currently developing a major new head office building in the traditional banking district of the BCD. SOLIDERE is itself

ALCO FRN rated investment grade

mon issues Russia ty call warrants

ONE ACTIVE INDICES

II LEBANON

Capital markets: by Roula Khalaf

# Regional role kept waiting

Confusion about the official and secondary markets hinders the bourse's development

Earlier this year, Lebanon started to send signals that it could reclaim its former role as a regional financial centre. Foreign banks such as ING and Flemings opened offices with an eye on turning them into regional bases; local banks successfully tapped international markets for finance; and institutional investors in London and New York sent teams to explore investment opportunities.

Then came the April Israeli bombardment, which highlighted the country's vulnerability and the desperate need for comprehensive peace in the region if Lebanon's economic and financial hopes for the future were to be realised. The April attacks and the subsequent election of a hardline Likud government in Israel have thrown the peace process into doubt and raised the level of Lebanon's political risk not least in financial terms.

Lebanese bankers and government officials, however, remain outwardly undisturbed. The Israeli attacks were a serious setback; peace may now be much harder to reach, but turning the country into a regional centre is a long term objective; one which can wait, they said.

In the meantime, however, Lebanon has had to continue with the development of its capital markets. This is not just the centrepiece of its plans to re-establish itself as a financial centre, but also an essential element in raising finance for its ambitious reconstruction projects.

If foreigners are now forced to shelve plans to set up a regional base in Beirut, some foreign as well as Lebanese investors seem still willing to buy Lebanese paper, as evidenced by a successful \$100m eurobond issue following the April attacks and a more recent \$60m eurobond for Credit Libanais, which is 97 per cent owned by the central bank.

The effort to develop capital markets has proved slower and more complicated than both the government and the private sector had anticipated.

Lebanese investment bankers tend to

lower their voices when the discussion turns to the Beirut stock exchange. Why publicise the fact that on some days, no more than a few hundred dollars changes hands in the four stocks listed? Or that the market has a total capitalisation of under only \$400m while another parallel secondary market under the supervision of the central bank has a \$2bn capitalisation and lists a single stock?

The Lebanese bourse opened to January amid much fanfare - it was to be one of the region's few vibrant exchanges open to foreign investors. But regulatory delays, reluctance on the part of the mostly family-owned companies to open up their capital, and confusion about the two exchanges, have hindered the development of the bourse.

Because stricter rules on the official stock exchange have led to fewer brokers than on the secondary market, Solidere, the real estate company developing the historical downtown area of Beirut, is still traded on the more liquid secondary market, which was created specifically for the company.

Rivalry between the central bank and the ministry of finance, under which authority the bourse falls, is also delaying the merger. Both stock exchange and Solidere officials, however, say they expect the two exchanges to merge eventually.

The creation of capital markets requires the development of a legal environment, of intermediaries, instruments, and a process of education. Lebanon is working on all four fronts.

Until a year ago, Lebanon's banks had a monopoly on all kinds of mediation. And there was not much of it. With the high rates paid on Treasury bills to maintain the stability of the currency - rates reached 40 per cent last autumn - and stiff reserve requirements, the banks, for the most part, took deposits and invested in T-bills. During the past year, however, new investment banks, in particular, the Beirut-based Lebanon Invest, which was started with Gulf money, have weakened the banking monopoly by highlighting to both investors and businesses the availability of other forms of finance, such as equity issues.

For example, the bank announced in May that it had secured a \$81m private

placement for the reconstruction of the Phoenicia Intercontinental Hotel in Beirut, one of the city's most famous hotels before the civil war. Phoenicia has now applied for a listing on the exchange.

Commercial banks have taken stock of the potential for corporate finance deals and are setting up their own investment banking arms, while foreign banks have opened offices in Beirut.

Earlier this year, the Middle East Capital Group, backed by the International Finance Corporation and BZW, the investment arm of Barclays bank, chose Beirut as its regional base to channel capital into the Middle East. The group is now arranging \$20m in finance for Lebanon's Al Pastan hotel.

The legal framework has become more accommodating, but not yet complete. A new law issued last month expanded the sector's business prospects by allowing banks to manage fiduciary accounts, a development bankers consider as significant as Lebanon's bank secrecy laws.

Another law now allows banks to float up to 30 per cent of their shares on the stock exchange without prior central bank approval of each shareholder, as had been the case in the past. "I would not be surprised if in two to three years from now banks are the mainstay of the bourse," says Mr Nasser Saidi, the central bank vice governor.

While this measure will encourage banks to open up their capital, some bankers say they will wait for the stock exchange to set up a supervisory body before issuing shares. "There is an awareness of the need for capital markets, there is a willingness but the only thing that has not been mastered is time," says Mr Freddie Baz of Banque Audi.

The banks have been at once the driving force behind the development of Lebanon's capital markets and a main obstacle. Having enjoyed huge profit margins for the last few years by financing the government, many banks are reluctant to spend money on attracting talent to develop businesses based on fee income or create new products. Nor are they encouraging clients - most of which are family-owned businesses - to look at financing outside the banking system and to open up their capital.

Economy: by Roula Khalaf

# Slowed after the storm

Stability of the currency is the backbone of the government's economic policy

The most damaging consequence of the Israeli bombardment of Lebanon in April beyond the devastation wreaked on southern villages and rehabilitated infrastructure is the estimated 1 per cent to 2 per cent it will shave off economic growth this year.

This, coupled with the political uncertainty about the Middle East peace process as well as local parliamentary elections later this year, will present serious challenges to Lebanon's economic policy makers in the coming months.

Even before the Israeli attacks, economic growth was sluggish as high interest rates on Treasury bills crowded out the private sector, and the construction sector, a main magnet of capital inflows, drew close to saturation.

According to Banque Audi, considered the most authoritative guide to macro-economic statistics, gross domestic product growth in the first quarter was a mere 3 per cent, compared with the 7 per cent recorded in the whole of 1995 and the 8.5 per cent in 1994.

Because any eventual pick up of the economy is largely a function of regional political developments outside Lebanon's control, Lebanese officials prefer, however, to focus attention on the brighter side of things.

To them, the Israeli attacks provided intangible benefits - a demonstration of national unity which until recently remained elusive and a newly-found resilience in the

	31/12/94	31/3/95	31/12/95	31/3/96
Commercial bank deposits (Lbn)	20,349.8	21,283.3	23,984.1	24,900.4
Private sector claims (Lbn)	8,169.3	8,962.7	10,694.7	11,378.3
Inflation (% in L)	12.05	2.20	9.92	1.78
Internal public debt (L)	9,320.6	9,181.8	11,997.2	12,708.5
Beirut port (ships)	3,368	618	3,443	838
Beirut airport (passengers)	1,438,298	282,428	34,031,586	2,988,759
Construction permits (sq m)	22,368,190	182.0	156.7	159.0
Minimum salary (\$)	45,630	9,704	n/a	n/a
Work permits	9,568.8	5,358.0	8,892.2	9,278.4
Net foreign assets (\$m)	471,676	136,203	825,645	245,839
Customs receipts (\$'000)	1,491	1,140	4,823	1,857
Electricity production (kWh m)	3,486,428	802,111	3,877,794	690,177
Cement delivery (tonnes)				

Lebanese pound.

Lebanese officials were greatly relieved and surprised that the Israeli offensive did not fuel a run on the Lebanese pound. After spending \$200m in the first two days of attacks to buy Lebanese pounds, the Lebanese central bank was able to recover the same amount by the end of the operation.

Several factors lie behind the reserved attitudes and reactions of Lebanese individuals and institutions. They did not expect the attacks to last long and the markets were closed for a good part of the 17-day crisis. The central bank, now more adept at managing political crisis, averted a panic by offering to sell as many dollars as were in demand and by not raising the discount rate.

Moreover, with the bulk of local currency deposits tied up in high-yielding T-bills, selling off these would have meant discounting them up to 30 per cent, a loss most holders were not willing to take.

The stability of the currency is the backbone of the economic policy followed by the Hariri government since taking office in 1992. Albert at a high cost, keeping the pound stable is considered the prerequisite to sustained growth in the long term, as it can act as a focus to attract the capital inflows needed to finance a \$60bn 13-year reconstruction programme towards which the private sector is expected to contribute \$28bn.

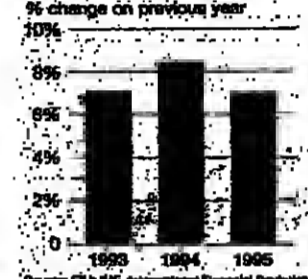
question is whether people would then choose to convert into dollars and this decision is related to the political situation," says one economist.

In addition to stifling private sector investment, the government's monetary policy has led to a mountain of domestic debt. While foreign debt is only \$1.3bn, the net public debt now stands at about \$6.5bn, and debt service stands at 30 per cent of total government spending.

This helps finance a deficit that consistently exceeds official targets.

Although on a downward trend, last year's projection of

Gross domestic product



a deficit at 44 per cent of total spending was turned out as an actual deficit of 47 per cent. Largely due to the Israeli attacks, the deficit for the first four months of this year is estimated at 46.5 per cent, way ahead of the projected 38 per cent.

Probably the factor most important to the Lebanese economy is that the political uncertainty stemming from Israeli attacks and the result of its elections in May could have a negative effect on the pound, the private sector, which has always fuelled economic growth and traditionally accounted for 85 per cent of production, has now turned to financing the government.

When a domestic political crisis last year led to pressure on the pound, the central bank raised rates paid on T-bills to up to 40 per cent. According to Banque Audi, by the end of the year, the state had absorbed 44 per cent of bank financing available while contributing only 22 per cent of production.

More than \$2bn worth of T-bills are due over 8 weeks between October and November this year. Under normal circumstances, the government should be able to roll over all the bonds.

But Mr Rafiq Hariri, the prime minister and a billionaire businessman who has injected much of his own fortune into Lebanese projects, knows that the country could face a problem if regional political developments or domestic

parliamentary elections in August cause a crisis. "It is normal for businessmen to be hesitant but the economy can afford a few months of slowdown in capital flows," he says. "If the situation continues in the long term, then it will be different, but I don't think it will continue."

One way to offset any eventual decline is to speed up grants and soft loans received by the government for reconstruction. The ceasefire agreement reached in April stipulates the formation of a consultative group to assist in financing Lebanon's reconstruction. Although the group has yet to be formed, Mr Hariri is asking for \$8bn in grants and soft loans to be paid over 5 years.

Lebanese officials say that a large portion of the inflows (which they cannot quantify) is in the form of remittances which are received by families regardless of the political situation. Another source is the spending by Lebanese expatriates who return home for the summer months, and this is also unlikely to be severely affected unless further fighting breaks out over that period.

Inflows destined for long-term, productive investments could also be replaced by short-term and more liquid investments into Lebanese traded paper.

The extent of the slowdown in capital flows will determine whether the balance of payments comes under pressure and details efforts to prop up the Lebanese pound. Capital inflows have more than offset the \$5bn trade deficit - about 50 per cent of estimated GDP - Lebanon has been recording in recent years. But the \$1.1bn balance of payments surplus recorded in 1994 had shrunk to a mere \$25m last year.

Advisers to Mr Sanioura point out that the Lebanese economy has weathered many storms before and the rise in central bank net foreign exchange reserves - to \$3.5bn in mid-June from \$2.7bn at the end of last year - is a safety cushion against any eventual pressure on the currency.

But the long-term growth of the economy and viability of the reconstruction plan will continue to hang on perceptions of the regional political equation.

As one banker put it: "Regional developments can make or break Lebanon. But regional issues are outside our control so in the meantime we have to manage the crisis the best way we can."

BEIRUT INTERNATIONAL AIRPORT BIDS

# LAST CALL

The Beirut International Airport (B.I.A.) is being rehabilitated and expanded, in line with the "Horizon 2000" plan launched by the Lebanese government, to accommodate an annual flow of about six million passengers, by the year 2000. The Investment Development Authority of Lebanon (IDAL) is pleased to invite interested parties to participate in the following projects open for tender: BIA Car Park, BIA Hotel and BIA Free Zone.

The bidder should demonstrate capabilities to efficiently execute the construction of the buildings and to operate and provide maintenance of the facilities in accordance with the required specifications.

• BIA Hotel; located on 60,000 m<sup>2</sup> of prime land

opposite the main passenger terminal building. The Four-Star Hotel will be of international standard with 250 rooms, such as lounges, a panoramic restaurant, bars, conferences and functions areas along with related facilities.

• BIA Car Park; located in front of the main passenger terminal building, with a capacity for 2,350 cars in a two underground levels and an open-air parking.

• BIA Free Zone; located within the Airport parameter, it is designed to accommodate 150,000 m<sup>2</sup> of building units, intended for duty free activities. The Free Zone will have bonded storage areas, light industry, trading and services.

Bidders have the option to, either make their offers

based on the premise that they will build, furnish and equip the facilities according to the required standards and specifications, then operate and transfer back to the government after a duration to be agreed upon (B.O.T); or have the government build and the operator furnish and equip the facilities up to the required standards, and then operate it for a period of 15 years from the date of site delivery (E.O.T).

The preliminary deadlines of bids submission are as follows: BIA Hotel 30/10/96, BIA Car Park 9/10/96, BIA Free Zone 3/10/96.

For further information, please contact the Marketing and Information Department at IDAL.



## LEBANON

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## IV LEBANON

Politics by David Gardner

## The unity of grief

The reconstruction drive has yet to reassure the Shi'ites in the poor southern region

Virtually all the total of more than 300 dead, 550 injured and half million refugees caused by Israel's 17-day air, artillery and naval bombardment in April of southern Lebanon were Shi'ite Muslims. This was the community which spawned Hizbollah, the Islamist militia fighting the self-proclaimed Israeli "security zone" in the south.

Yet the first demonstrations against the bombing were by Maronite Christians in east Beirut, the hitherto dominant community that allied with Israel during the 1975-90 Lebanese civil war, which ended not only with Israel holding 12 per cent of Lebanon's southern territory as a buffer, but the rest of the country under the creeping hegemony of Syria.

The Israeli onslaught, intended to cause a popular backlash against Hizbollah and pressure the Beirut government into closing it down, provoked instead a surge of national unity.

After the 16 years of tribal warfare between and within the country's minority communities, the Lebanese are rediscovering themselves as a nation. But politically Lebanon is still unable to turn the page on the civil war, and its options are still constrained by the war's outcome.

First, Lebanon's destiny has for the past quarter century been shaped by powerful neighbours using its soil and sectarian divisions to fight out their differences. April's events, essentially a proxy confrontation between the United States and Syria, which licenses Hizbollah's attacks on the occupation, show that cycle has not yet ended.

Second, the growing national consensus at street level has not percolated up to a political class still heavily populated by sect and clan leaders and warlords, still organised along confessional divisions and incapable of articulating a national vision.

The 1989 Taif Agreement which eventually ended the civil war rebalanced power between the country's main groupings. The executive presidency, through which the Maronites had dominated Lebanon, ceded power to a Sunni Muslim prime minister, Mr Hariri, and to a Shi'ite Muslim speaker of parliament, former militia leader Nabih Berri. Instead of giving way to national reconciliation, the pre-war confessional system, skillfully manipulated by Syria, has acquired a new lease of life.

Third, Lebanon lost a huge chunk of its middle class, either because they fled abroad, or because their savings were wiped out by wartime inflation. The poor

became poorer and more numerous, the rich appear to be getting much richer.

Mr Hariri's reconstruction drive, moreover, although still at an early stage, is not doing enough to reassure poorer regions like the Shi'ite south that it will change the pattern of uneven development which helped fuel sectarian war. "The imbalances that were there before the war, in terms of distribution of income and distribution of regional wealth, have increased, not diminished," says a leading Shi'ite member of the administration.

Against problems of this magnitude, the strategy of Mr Hariri, a billionaire businessman, has been to press forward with the physical reconstruction of Lebanon's shattered economy and infrastructure. The ambition is to reclaim the country's pre-war role as the world's window onto the Middle East, the region's services entrepot, and in particular, its pre-eminent capital market.

The Israeli bombardment, which deliberately targeted infrastructure, in the view of one senior government official

## Public reaction showed there is a mass market for national entente

showed that it is futile to try to rebuild Lebanon economically while ignoring its political and social divisions and geo-political constraints. "We must have a new national entente, based on reconciliation and taking together the decisions on our common future," he said.

Public reaction to the bombardment showed that there is indeed a mass market for this view. It also showed that the Lebanese are beginning to believe in the future and that they already have something to protect.

Amid the US and French diplomatic shuffling between Jerusalem and Damascus to end the April fighting, Mr Hariri skillfully exploited his wide range of international contacts - especially with French president Jacques Chirac - to ensure that Beirut too was an interlocutor in any discussion on Lebanon's future.

But since taking office in October 1992, Mr Hariri has not deployed similar skills in internal politics. He now says that the parliamentary elections due next month "can solve this problem" of national reconciliation.

Until Israel's elections on May 29, there was hope that Israel would negotiate its withdrawal from south Lebanon, and thereby loosen Syria's grip on the country. With the victory of Mr Benjamin Netanyahu, who now heads a coalition of hardline Zionists and religious fundamentalists, this hope has nearly evaporated, although senior officials in both Beirut and Jerusalem do

not entirely rule it out.

But Syria, the powerbroker with 40,000 troops in Lebanon, is fully engaged in trying to forge a united Arab front against Israel, which under Mr Netanyahu says it will not restore the Golan Heights to Syrian sovereignty in exchange for peace. Syria also feels under pressure from Turkey, Turkey in February signed a military co-operation pact with Israel, and Damascus believes Ankara was behind a series of bomb attacks inside Syria in May. Under these circumstances, some government officials believe Syria will insist on postponing the elections.

Mr Hariri, who travels to Damascus almost every week, adamantly rejects this. "The elections will take place on time," he says. If they do, the outcome is far from clear. The last elections in 1992 were boycotted by the Maronites, who complained they were taking place under Syrian guns, and put them at a disadvantage against Muslim voters. They have an additional complaint now over the electoral rules, which, they say, could create an unfair division of spoils between Maronites and the Druze on Mount Lebanon.

The governments in Beirut and Damascus take Maronite disquiet seriously. A meeting in Paris on June 5 of three Maronite civil war leaders by June 5 had Lebanese army patrols fanned out in response across all the mountain and coast approaches to Christian east Beirut. A more serious problem, however, is the Maronite failure to produce leaders and organise their national representation, whether as a group or across confessional lines. Their most potent voice is Patriarch Nasrallah Sfeir, who would like to see a Christian-Muslim national party, and preaches national reconciliation.

So too, in a different way, does Hizbollah, which furthermore is pushing to enter government, presenting Mr Hariri with another headache. Sheikh Mohammed Hussein Fadlallah, the senior Shi'ite cleric who maintains a distance from the movement but is regarded as Hizbollah's spiritual guide, says Hizbollah's Islamic fundamentalism should only be "one element in an ideological context" embracing all Lebanon's communities, and that "Christians and Muslims should think together on the ways we can achieve both Islamic and Christian values, which are 80 per cent the same."

Hizbollah has a formidable social and welfare network and its resistance to Israel in and since April has enhanced its prestige. It is expected to do well in any election, although the Shi'a as a whole are allocated only 26 of the 128 parliamentary seats. Mr Hariri says he could never agree a common platform with the Islamists. But government officials recognise that Hizbollah is too powerful a force to be kept outside the political mainstream for long.

## PROFILE Soliders

## Jewel in the reconstruction vision

The Lebanese Company for the Reconstruction of Beirut Central District, Lebanon's largest company, has in the past 12 months received its first land sales commitments for \$200m, an amount officials had expected to achieve over three years. Buyers are for the most part businessmen from the Lebanese diaspora wishing to relocate in Lebanon. The first phase of rebuilding the infrastructure of the war-ravaged historical downtown sector, including road networks, the sewerage and water systems, tunnels and electrical and communications networks is scheduled for completion in 1998 and some new roads and overpasses are already operational.

Peace or no peace to the Middle East, Soliders will soldier on, say its executives. "On the contrary, if peace is delayed, we will now have more time to prepare for it," says deputy general manager

Mr Abdul Hafiz Mansour. Yet few other projects in Lebanon are as dependent as Soliders on Lebanon's success in remoulding itself into a regional financial centre, and as affected by the region's long term political prospects. Soliders is the jewel in prime minister Rafiq Hariri's reconstruction project for Lebanon. He is the company's single largest shareholder and the architect behind the controversial 1991 law which created the company. The law effectively forced landowners and former tenants, who also under Lebanese law have claims to certain rights of ownership and occupancy, to give up these rights to return for shares in a publicly traded company. While 64 per cent of the company's shareholders held property rights to the downtown area, the rest bought the stock in a \$650m public offering to Lebanese and other Arab investors in January 1994.

Soliders covers about 10 per cent of the Beirut surface area and its plans call for the development of 1.9m sq m of residential space and 1.5 sq m of office space. The company is building two marinas, one of which will house 750 boats. The development expects to house 45,000 inhabitants and another 110,000 employees and 150,000 visitors.

The company has a 25-year life and is responsible for building infrastructure, restoring buildings to the traditional souks and selling most of the land to other developers. "For a project like this, you have to have a clear idea of where the country will be in five years," says a local trader. "There is no clear vision for the medium- to long-term prospects of the country." This is partly why Soliders's shareholders are far less cheerful than its executives. After reaching \$175 from its \$100 issue price, the Soliders stock has

languished around \$110 and recently for a brief while reached a new low of just above \$103.

This was at a time when the company recognised \$23m out of the \$200m in sales commitments as income in 1995, pushing net income up to over \$32m, well ahead of projections. The company books the total amount of the sales after signing a final sales contract and receiving only 25 per cent of the price. The rest of the \$300m is expected to be recognised into income this year. Shareholders' disappointment is all the greater since many of them never chose to buy the stock in the first place.

Because distributing shares to holders of property rights to the area is entangled to court decisions and disputes among the recipients, the process has been lengthy and the company has 3m out of a total of 11.7m shares left to distribute.

Demand for Soliders stock is dampened by the fact that the company's bylaws allow only Lebanese and other Arab shareholders and these interested investors bought in the initial public offering. Although executives will not comment on this, local bankers say the company is considering an international issue of global depositary receipts to attract international institutional buyers it hopes would stick with the stock for the long haul and help prop up the price. Some analysts say that, with total payments for compensating settlers and infrastructure contracts exceeding \$500m, the company may also be in need of new cash. The GDR issue would be designed to circumvent the company's bylaws, which allow only Lebanese and Arab shareholders.

Roula Khalaf

Reconstruction by Roula Khalaf

## An exercise in damage control

About \$60bn investment will be required for the rebuilding plan up to the year 2007

When Israeli planes pounded Lebanese territory in April and deliberately targeted two power stations, the anxiety of Lebanese officials was such that they publicly exaggerated the extent of the damage to discourage further attacks and immediately rationed the supply of electricity to Beirut as proof of the devastation.

Hitting Lebanon's infrastructure just as the benefits of an ambitious reconstruction programme were beginning to be felt was a psychological blow to both government and population. Mr Rafiq Hariri, the prime minister, has staked his reputation on rebuilding a modern infrastructure system that allows the private sector

## Beirut residents had been deprived of basic services for a decade

traditionally the driving force of the Lebanese economy - to thrive.

After having been deprived of the most basic of services for more than a decade through civil war, residents in Greater Beirut finally received 24 hours a day of uninterrupted electrical supply earlier this year. Telephone exchanges were rebuilt and restored, allowing calls to go through in a few minutes instead of hours, and new roads were springing up across the city.

After five years of rehabilitation work, both telephone networks and electrical power are now nearly at pre-war capacity, with the ongoing phases of reconstruction aiming to upgrade and expand services.

By the end of this year, nearly a million telephone lines should be at the government's disposal. Two cellular operators were licensed last year by the government and each has now signed up 50,000 subscribers and plans to increase capacity. Contracts for the expansion of electrical generating capacity through the construction of two new power plants have been signed. Work on expanding the airport to receive up to 6m passengers is about 10 per cent complete and bids have been

invited for the rehabilitation of the Beirut port.

By the time the Israelis attacked, Lebanon was moving on to a new phase of reconstruction, focusing on administrative reform and with special emphasis on social projects, the source of numerous complaints from the Lebanese population. These projects include the rehabilitation and reconstruction of hospitals and health centres throughout the country and the construction of new schools, colleges and a new university.

As it turned out, direct damage to infrastructure due to the Israeli attacks was about half the initial estimates advanced by government officials in April.

Total direct damage is estimated at no more than \$200m, according to the Council for Development and Reconstruction (CDR), including \$40m to repair the two power stations of which the French government has already offered to take charge.

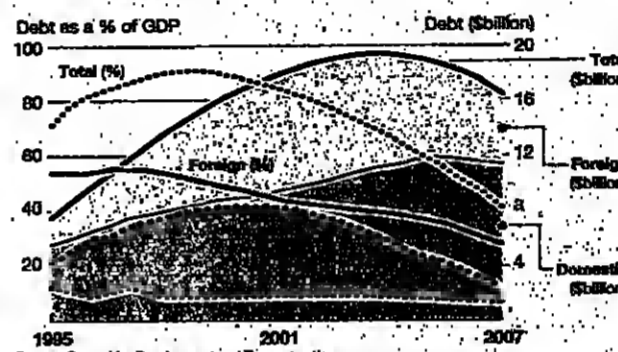
The indirect damage to reconstruction, however, could be far more significant. The political uncertainty generated by the attack as well as by new doubts about the future of the peace process following the election in Israel of right-wing Likud leader and prime minister Benjamin Netanyahu could affect capital flows into Lebanon. This raises the risk of slowing down the huge investment plans envisioned by the government for the private sector.

So as not to aggravate this potential loss, Mr Hariri is attempting to exploit the April raid in order to wrest grants and soft loans from international donors. The aim is to lower the government's planned borrowing costs and maintain high levels of public investment.

"The aggression may have slowed us down a little but it did not affect the reconstruction programme as a whole. We are at a stage where disaster makes us stronger," says Mr Nabih El Jisr, president of the CDR, the body overseeing the rebuilding programme. "We are trying to benefit from it to accelerate the reconstruction."

In 1995, Lebanon's Horizon 2000, as Mr Hariri's reconstruction programme is known, was revised and expanded to span 13 years up to 2007 and to include a public investment programme of \$17.7bn (in 1995 dollars) for the building of an infrastructure conducive to private sector investment. For the plan to work as envisaged by

## Public debt



the CDR - that is to double GDP per capita in 13 years - implies private sector investment - in addition to that from the public sector - of as much as \$42bn.

The CDR estimates that financing requirements will be principally met by foreign borrowing during the first six years of the programme, which will amount to \$8.7bn of total financing over the whole reconstruction period. The rest is expected to be financed by future surpluses in the government budget.

Now under considerable financial strain (the budget deficit is estimated at an optimistic 38 per cent of spending this year), the government is expected to begin recording surpluses in its budget during the last seven years of Horizon 2000.

Indeed, to relieve pressure on its finances, and because the cost of expropriating land for infrastructure has turned out far higher than planned, the government has decided to enlarge further the private sec-

tor's role in reconstruction by banding out \$1.2bn worth of public projects on a build-operate-transfer basis or as concessions.

Mr Nohad Baroudi, secretary general of the CDR, says Lebanon should not have a problem obtaining the necessary foreign funding, although in the last five years, the country has received only \$2.5bn in foreign grants and loans (excluding \$300m raised in eurobond issues), with grants making up only \$38.6 of that total.

But the CDR is hoping to lower its borrowing costs by asking for better terms from donors within the framework of the so-called consultative group.

This is a body expected to be set up by international donors to assist in Lebanon's reconstruction as part of the April 27 ceasefire agreement which put an end to the Israeli offensive. Its creation, however, had been awaiting the establishment of the monitoring group to oversee the ceasefire.

The Lebanese government

has kept a lid on the documented direct costs and estimated indirect costs of the Israeli operation as it tries to figure out the best possible way of presenting the damage to donors. The government is hoping to convince donors at the consultative group to provide Lebanon with grants and soft loans instead of regular loans.

Mr Hariri has already proposed to the European Union that the consultative group should work on obtaining \$5bn over five years for Lebanon, 30 per cent in grants and the rest in soft loans.

Lowering borrowing costs is all the more important when the expected slower rate of growth in GDP this year due to the Israeli attacks and the political uncertainty in the region is taken into account. This and a reduction in capital inflows will frustrate the financial impact of the reconstruction programme.

A macro-economic model underlying Horizon 2000 set up by Mr Baroudi assumes that annual growth will be a little under 8 per cent a year leading to a doubling of GDP per head over 13 years - a goal that will not be met this year. The model estimates a huge rise in public indebtedness but one that Mr Baroudi considers manageable. Total foreign debt is to peak at 42 per cent of GDP in the year 2000, with total debt stock reaching 80 per cent of GDP in 1999.

Debt service as a percentage of GDP is estimated at only 10 per cent because it excludes principal payment on domestic debt, assuming that it will always be rolled over.

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CURRENCIES AND MONEY

MARKETS REPORT

D-Mark rises in spite of Yeltsin health scare

By Graham Bowley

Expectations that short-term interest rates across Europe might rise soon caused the D-Mark to rally strongly on the foreign exchanges yesterday.

This was in spite of growing concerns about the apparently declining health of Russian president Boris Yeltsin, who failed to meet an appointment in Moscow with US vice-president Al Gore.

The D-Mark recovered especially large gains against the European high-yielding currencies such as the Italian lira, the Swedish krona and the Spanish peseta.

The D-Mark gained ground against sterling. Worries that a split between the UK Treasury and the Bank of England on

interest rate policy might emerge in the minutes of the June monetary meeting published tomorrow helped underpin the pound.

The French franc was unmoved by calls by President Jacques Chirac for lower French interest rates, while the Spanish peseta came under further downward pressure after the Spanish finance ministry said it would prefer a weaker currency.

Elsewhere, the dollar lost about half a penny against the D-Mark. This was due largely to the D-Mark's strength rather than the dollar's weakness, although weakness in US share prices exacerbated its decline.

The dollar closed in London at DM1.5217. The pound lost

about one-tenth of a cent against the dollar to reach \$1.5507. Against the yen, the dollar finished at ¥110.325, down about one-third of a yen.

Sterling shed almost one penny to finish at DM2.5546. The French franc fell almost half a cent to DM2.5546. The D-Mark closed at L1.013 against the Italian lira, from L1.006 at the previous close.

The European foreign exchange markets, sunk in narrow trading ranges for most of last week, came to life yesterday. The increased activity was triggered by Friday's rise in Dutch official interest rates.

The rate rise was expected. Dutch-specific reasons but it nevertheless gave rise to speculation that it might signal rate increases in other European countries.

In particular, the markets began to speculate yesterday about the downward cycle in German interest rates might be

Dutch hike has made it less likely that Germany will cut rates again, but the Bundesbank has made it clear that even if the bottom in rates has been reached they do not want to see rates moving higher.

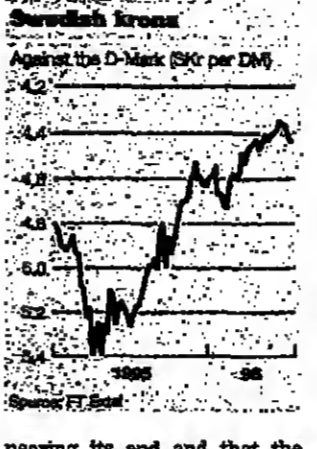
The latest survey of UK high street activity by the British Retail Consortium came in largely as expected and reinforced the picture of a pick-up in the UK's consumer sector.

Mr Kenneth Clarke, the chancellor, defended his upbeat forecasts for the UK economy in front of MPs in the House of Commons. He said the strong acceleration in growth he predicted for the second half of this year did not pose a risk of renewed inflationary pressures.

But concerns that last month's cut in interest rate may have been opposed by Mr Eddie George, the governor of the Bank of England, weighed on the pound yesterday.

A fall in Swedish government bond prices also hit the krona. The fall was sparked by growing speculation that the Swedish central bank may have decided not to lower interest rates any further.

Starling's trade-weighted index ended the day at 88.2 per cent of its 1990 value, compared with 86.4 per cent at Friday's close.



near its end and that the next move in rates might be upward. Mr Paul Megarry, currency analyst at Deutsche Morgan Grenfell in London, said: "The Dutch hike has helped concentrate attention on the interest rate cycle in Europe."

But Mr Jeremy Hawkins, chief economist at Bank of America in London, said: "The

WORLD INTEREST RATES

Table of World Interest Rates showing rates for various countries (Belgium, France, Germany, etc.) across different terms (Overnight, One month, Three months, Six months, One year, Long-term, Dis. rate, Repo rate).

EURO CURRENCY INTEREST RATES

Table of Euro Currency Interest Rates for various currencies (Belgian Franc, Dutch Guilder, French Franc, etc.) with columns for currency, rate, and date.

POUND SPOT FORWARD AGAINST THE POUND

Table of Pound Spot Forward rates for various countries (Europe, Americas, Asia, etc.) with columns for country, currency, and various interest rate terms.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table of Dollar Spot Forward rates for various countries (Europe, Americas, Asia, etc.) with columns for country, currency, and various interest rate terms.

CROSS RATES AND DERIVATIVES

Table of Exchange Cross Rates showing rates for various currencies (Belgium, Denmark, France, etc.) with columns for currency, rate, and date.

UK INTEREST RATES

Table of UK Interest Rates showing rates for various terms (Overnight, One month, Three months, Six months, One year, Long-term).

EUROPEAN CURRENCY UNIT RATES

Table of European Currency Unit Rates showing rates for various currencies (Spain, Netherlands, Belgium, etc.) with columns for currency, rate, and date.

THREE MONTH EURO CURRENCY FUTURES (LFFE) 100000 points of 100%

Table of Three Month Euro Currency Futures (LFFE) 100000 points of 100% with columns for currency, rate, and date.

THREE MONTH EURO CURRENCY FUTURES (LFFE) 500000 points of 100%

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BASE LENDING RATES

Table of Base Lending Rates for various banks (Adams & Company, Allied Trust Bank, etc.) with columns for bank name and rate.

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Advertisement for 100,000,000 Canadian Dollars Retractible Bonds due 2001, offering a 7.50% per annum rate.

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COMMODITIES AND AGRICULTURE

Canadians in \$2.5bn Peruvian copper plan

By Sally Bowen in Lima

The real, if unofficial, second attempt to privatise Peru's state mining and refining giant Centromin got off the ground on Friday when a Canadian consortium made an unexpected high bid for the huge Antamina copper deposit.

to spend at least \$18.5m in feasibility studies over the next two years - beat rival bids from Noranda, also of Canada, and RTZ International. Both of these offered the minimum \$17.5m cash demanded. Noranda offered an eventual investment commitment of \$1.9bn and RTZ \$900m.

Immet and Rio Algom were particularly keen to get a foothold in Peru. Rio Algom had bid unsuccessfully for the rich Tintaya copper deposit, eventually won by Magna, in October 1994. Immet is thought to be anxious to boost its reserves.

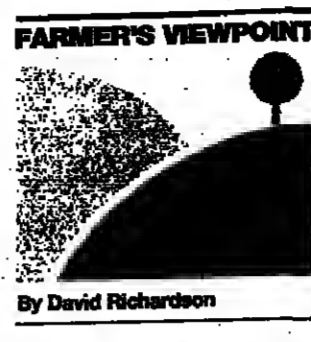
Officially, Antamina has 129m tonnes of proven and probable reserves averaging 1.6 per cent copper and 1.3 per cent zinc, with some 18g of silver a tonne. Potential reserves are estimated at 913m tonnes. Immet/Rio Algom executives believe these figures, based on feasibility studies carried out over the years by the former Cerro de Pasco Corporation, by Minero Peru and by Geomin of Romania, underestimate the deposit's worth.

Located in the north-central department of Ancash on the eastern side of the Andes mountain chain, development of Antamina will involve substantial investment in road and energy infrastructure. Immet/Rio Algom executives said they had spent over \$1m on serious studies of the deposit over the past 18 months. They have five drilling crews "ready to go" and expect to lay out some \$30m before their two-year option on Antamina expires.

UK agricultural cycle may be past its peak

Farmers would be wise to prepare for income cuts

The UK minister of agriculture, Mr Douglas Hogg, says that as far as politicians can usually be expected to go to warn farmers that the good times may be coming to an end. At the annual pre-harvest lunch of the Home Growth Cereals Authority he said: "It might be unwise to assume that the high level of grain prices experienced over the last 12 months will prove permanent."



By David Richardson

event, while the general cost of living index is increasing at well under 3 per cent, the estimated cost of agricultural inputs increased last year by 8 per cent to 10 per cent. Some, such as fertilisers, went up by far more than that.

Perhaps the biggest increases in costs now being suffered by some farmers are self-inflicted. These result from inflated prices being paid for both the purchase of land and renting on a new short term Farm Business Tenancies. The inevitability of a fall in profitability from recent highs have been pretty obvious to all in the industry. Even some land agents have been warning clients not to expect high returns to last for ever. But purchase and rent levels bid by some farmers in the last few months suggest that they choose to ignore this advice.

According to the Royal Institute of Chartered Surveyors farmland prices increased by 9 per cent in the first quarter of 1996, in comparison with the last quarter of 1995. Anecdotal evidence suggests it is still rising at a similar rate and that rents for new tenancies have experienced the same sort of manic rise. There are few more pessimistic people than farmers when they are reviewing their harvest prospects or their market prices; but few are more optimistic when they are bidding for land.

As always, however, there are exceptions to the general trend of lowering incomes. The pig business is booming at present, partly as a result of BSE and consumers' flight from beef to pork, and partly because there are too few pigs to satisfy the demand either in the UK or in Europe. It will not continue for long, of course - with pigs it never does. But it is OK at the moment and I am moderately happy (it never does to be more than moderately happy) with my involvement with them.

RTZ-CRA changes tack in Queensland zinc mine saga

By Nikid Tait in Sydney

The long saga of RTZ-CRA's efforts to develop a \$1.1bn (US\$777m) zinc mine in northern Queensland took another twist last night, with the Anglo-Australian mining group saying that it was no longer wanting special legislation from Australian state and federal governments to give it secure land title, and that it was also stopping all engineering work on the project.

attempting to win agreement on compensation package, but to date the indigenous community's views on the mine project have remained very divided. Earlier this month, the mining company had claimed that there was evidence of enough support among local aboriginal groups to justify pushing ahead with the development with both the Queensland state government and the federal government prepared to consider legislating to give the mining company secure title if necessary.

provoked a storm of controversy. In particular, RTZ-CRA admitted that such a move had "been perceived by some to be an attack upon the right to negotiate process of the Native Title Act". This was not RTZ-CRA's wish, said Mr Leigh Clifford, CRA's managing director. "The group continues to support the central tenets of the Native Title Act".

Under the 1993 Native Title Act, once a claim for native title is registered a fairly lengthy formal negotiation period is triggered. However, at the end of this, claimants do not have any veto rights, and an arbitrated solution can be sought. Part of the problem at CRA has been that RTZ-CRA's original discussions with the Weanyi people had predated the act and - when their claim was unexpectedly registered - it continued to conduct negotiations outside these prescribed processes.

The mining group's change of tack also came in the wake of a fairly forceful plea from Ms Lois O'Donoghue, chairperson of the Aboriginal and Torres Strait Islander Commission, urging all parties to follow the Native Title Act processes. "ATSIC believes the existing legislation provides ample scope for resolving the dispute within an established time-frame," she said.

The Century project - which is potentially the world's largest zinc mine - has run into opposition from some local aboriginal groups, who have a native title claim over the mine site and surrounding areas. RTZ-CRA has been

defending its own forecasts, but the ISO said prices had fallen since it began predicting a surplus a year ago. Remote futures contracts were trading nearer to 10 cents a pound, "showing the market is responding to the impending surplus".

It may be that spot prices are no longer a good indicator of the general situation, said the ISO. Spot prices refer to a particular grade of sugar, which may be in short supply, whereas other lower grades are

often sold at a big discount. The organisation pointed to the US Department of Agriculture's first estimate for 1996-97 of output of 120m tonnes, compared with current consumption of 117m tonnes.

"We can only repeat our view that the world sugar market is entering a period of surplus, last experienced in 1981-82, when prices fell to 9 cents a pound," it concluded.

New sugar price indicator planned as market defies forecasters

By Alison Maitland

London experts are working on a new sugar price indicator in response to the market's defiance of analysts' forecasts that it would fall sharply in late 1995 or early 1996. The International Sugar Organisation is to develop an indicator based on both spot and futures prices. Australia's Queensland Sugar Corporation said analysts had "serious egg on their faces" after forecasting that large crops from Cuba, Thailand, Australia and Brazil would cause a steep downturn.

The ISO, in its latest market report, said it had predicted downward pressure on prices, though not a serious price slump, and was "closely inspecting its face for egg". Its daily spot raw sugar price averaged 12.17 cents a pound last month, up 7 per cent on May.

Market sentiment was unaffected by bearish news including the potential export of 5.2m tonnes of Brazilian sugar in 1996-97, record sowings in Poland and continued forecasts of a significant sugar surplus in 1995-96.

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COMMODITIES PRICES

BASE METALS
LONDON METAL EXCHANGE
Prices from Amsterdam Metal Trading
ALUMINIUM, 99.5% PURITY (\$ per tonne)

Precious Metals continued
GOLD COMEX (100 Troy oz, \$/roy oz)

GRAINS AND OIL SEEDS
WHEAT LCE (\$ per tonne)

SOFTS
COFFEE LCE (\$/tonne)

MEAT AND LIVESTOCK
LIVE CATTLE CME (40,000 lbs, cents/lb)

BASE METALS
LONDON METAL EXCHANGE
Prices from Amsterdam Metal Trading
COPPER, 99.95% PURITY (\$ per tonne)

Precious Metals continued
SILVER COMEX (5,000 Troy oz, \$/roy oz)

GRAINS AND OIL SEEDS
BARLEY LCE (\$ per tonne)

SOFTS
COFFEE LCE (\$/tonne)

MEAT AND LIVESTOCK
LIVE CATTLE CME (40,000 lbs, cents/lb)

BASE METALS
LONDON METAL EXCHANGE
Prices from Amsterdam Metal Trading
ZINC, 99.99% PURITY (\$ per tonne)

ENERGY
CRUDE OIL NYMEX (1,000 barrels, \$/barrel)

GRAINS AND OIL SEEDS
SOYABEAN OIL CBT (60,000 lbs, cents/lb)

SOFTS
COFFEE LCE (\$/tonne)

MEAT AND LIVESTOCK
LIVE CATTLE CME (40,000 lbs, cents/lb)

PRECIOUS METALS
LONDON BULLION MARKET
Prices supplied by N M Rothschild

ENERGY
CRUDE OIL NYMEX (1,000 barrels, \$/barrel)

GRAINS AND OIL SEEDS
SOYABEAN MEAL CBT (100 tons, \$/ton)

SOFTS
COFFEE LCE (\$/tonne)

MEAT AND LIVESTOCK
LIVE CATTLE CME (40,000 lbs, cents/lb)

PRECIOUS METALS
LONDON BULLION MARKET
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ENERGY
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LIVE CATTLE CME (40,000 lbs, cents/lb)

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LONDON SPOT MARKETS
CRUDE OIL FOB (per barrel)

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CROSSWORD

FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (444 171) 873 4878 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fund Name	Price	Change
... (Fund Name) ...	...	...

BERMUDA (REGULATED)\*\*

Fund Name	Price	Change
... (Fund Name) ...	...	...

GUERNSEY (SIB RECOGNISED)

Fund Name	Price	Change
... (Fund Name) ...	...	...

GUERNSEY (REGULATED)\*\*

Fund Name	Price	Change
... (Fund Name) ...	...	...

Fund Name	Price	Change
... (Fund Name) ...	...	...

IRELAND (SIB RECOGNISED)

Fund Name	Price	Change
... (Fund Name) ...	...	...

GUERNSEY (REGULATED)\*\*

Fund Name	Price	Change
... (Fund Name) ...	...	...

Fund Name	Price	Change
... (Fund Name) ...	...	...

Fund Name	Price	Change
... (Fund Name) ...	...	...

IRELAND (REGULATED)\*\*

Fund Name	Price	Change
... (Fund Name) ...	...	...

Fund Name	Price	Change
... (Fund Name) ...	...	...

Fund Name	Price	Change
... (Fund Name) ...	...	...

Fund Name	Price	Change
... (Fund Name) ...	...	...

Fund Name	Price	Change
... (Fund Name) ...	...	...

Offshore Funds

Fund Name	Price	Change
... (Fund Name) ...	...	...

ISLE OF MAN (SIB RECOGNISED)

Fund Name	Price	Change
... (Fund Name) ...	...	...

JERSEY (REGULATED)\*\*

Fund Name	Price	Change
... (Fund Name) ...	...	...

ISLE OF MAN (REGULATED)\*\*

Fund Name	Price	Change
... (Fund Name) ...	...	...

JERSEY (SIB RECOGNISED)

Fund Name	Price	Change
... (Fund Name) ...	...	...

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FT MANAGED FUNDS SERVICE

Main table containing FT Managed Funds Service data, including columns for Fund Name, Currency, and various performance metrics. The table is organized into sections like 'LUXEMBOURG (REGULATED)\*\*' and 'OFFSHORE INSURANCES'.

JAVICO LTD

OTHER OFFSHORE FUNDS

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (444 171) 873 4378 for more details.

Main table containing fund names, descriptions, and prices. Includes sections for 'Other Offshore Funds' and 'Managed Funds Service'.

JAVI 10 1996



MANAGED FUNDS NOTES
This section contains detailed notes and information regarding the managed funds, including performance metrics and risk factors.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Table with 2 columns: Company Name, Price. Includes Guinness, Heineken, etc.

BANKS, MERCHANT

Table with 2 columns: Company Name, Price. Includes HSBC, Citibank, etc.

BANKS, RETAIL

Table with 2 columns: Company Name, Price. Includes NatWest, etc.

BREWERIES, PUBS & REST

Table with 2 columns: Company Name, Price. Includes Asahi, etc.

BUILDING & CONSTRUCTION

Table with 2 columns: Company Name, Price. Includes Bovis Lend Lease, etc.

BUILDING MATS & MERCHANTS

Table with 2 columns: Company Name, Price. Includes Wm Hill, etc.

CHEMICALS

Table with 2 columns: Company Name, Price. Includes ICI, etc.

CHEMICALS - Cont.

Table with 2 columns: Company Name, Price. Includes British Petroleum, etc.

DISTRIBUTORS

Table with 2 columns: Company Name, Price. Includes Marks & Spencer, etc.

DIVERSIFIED INDUSTRIALS

Table with 2 columns: Company Name, Price. Includes BHP, etc.

ELECTRICITY

Table with 2 columns: Company Name, Price. Includes British Energy, etc.

ENGINEERING & ELECTRICAL EQPT

Table with 2 columns: Company Name, Price. Includes BAE Systems, etc.

ENGINEERING, VEHICLES

Table with 2 columns: Company Name, Price. Includes Ford, etc.

EXTRACTIVE INDUSTRIES

Table with 2 columns: Company Name, Price. Includes Anglo American, etc.

ELECTRONIC & ELECTRICAL EQPT - Cont.

Table with 2 columns: Company Name, Price. Includes Fujitsu, etc.

ENGINEERING

Table with 2 columns: Company Name, Price. Includes Rolls Royce, etc.

EXTRACTIVE INDUSTRIES - Cont.

Table with 2 columns: Company Name, Price. Includes Anglo American, etc.

FOOD PRODUCE

Table with 2 columns: Company Name, Price. Includes Unilever, etc.

FOOD PRODUCERS - Cont.

Table with 2 columns: Company Name, Price. Includes Unilever, etc.

GAS DISTRIBUTION

Table with 2 columns: Company Name, Price. Includes British Gas, etc.

HEALTH CARE

Table with 2 columns: Company Name, Price. Includes Glaxo, etc.

EXTRACTIVE INDUSTRIES - Cont.

Table with 2 columns: Company Name, Price. Includes Anglo American, etc.

HOUSEHOLD GOODS

Table with 2 columns: Company Name, Price. Includes B&Q, etc.

INSURANCE

Table with 2 columns: Company Name, Price. Includes Prudential, etc.

INVESTMENT TRUSTS

Table with 2 columns: Company Name, Price. Includes Fidelity, etc.

INVESTMENT TRUSTS - Cont.

Table with 2 columns: Company Name, Price. Includes Fidelity, etc.

INVESTMENT TRUSTS - Cont.

Table with 2 columns: Company Name, Price. Includes Fidelity, etc.

INVESTMENT TRUSTS - Cont.

Table with 2 columns: Company Name, Price. Includes Fidelity, etc.

Advertisement for Risk Management: THE ODDS ON YOUR BUSINESS HAVING A DISASTER? OPEN A BOOK ON IT. 0500 855311. Includes logo for Risk Understanding It Assessing It Managing It.

HOUSEHOLD GOODS

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INSURANCE

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Table with 2 columns: Company Name, Price. Includes Fidelity, etc.

INVESTMENT TRUSTS - Cont.

Table with 2 columns: Company Name, Price. Includes Fidelity, etc.

Vertical sidebar with various financial service advertisements and logos.

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LONDON SHARE SERVICE

BY TRUSTS SPLIT CAPITAL - Cont.

Table listing various investment trusts and their performance metrics.

OTHER INVESTMENT TRUSTS

Table listing other investment trusts and their performance metrics.

INVESTMENT COMPANIES

Table listing investment companies and their performance metrics.

LEISURE & HOTELS

Table listing leisure and hotel companies and their performance metrics.

LEISURE & HOTELS - Cont.

Table listing leisure and hotel companies (continued).

LIFE ASSURANCE

Table listing life assurance companies and their performance metrics.

MEDIA

Table listing media companies and their performance metrics.

PHARMACEUTICALS

Table listing pharmaceutical companies and their performance metrics.

PROPERTY

Table listing property companies and their performance metrics.

RETAILERS, FOOD

Table listing food retailers and their performance metrics.

RETAILERS, GENERAL

Table listing general retailers and their performance metrics.

SUPPORT SERVICES

Table listing support service companies and their performance metrics.

TOBACCO

Table listing tobacco companies and their performance metrics.

TRANSPORT

Table listing transport companies and their performance metrics.

WATER

Table listing water companies and their performance metrics.

AIM

Table listing companies on the Alternative Investment Market (AIM).

AMERICANS

Table listing American companies and their performance metrics.

CANADIANS

Table listing Canadian companies and their performance metrics.

SOUTH AFRICANS

Table listing South African companies and their performance metrics.

OTHER FINANCIAL - Cont.

Table listing other financial companies (continued).

PAPER, PACKAGING & PRINTING

Table listing paper, packaging, and printing companies and their performance metrics.

PROPERTY - Cont.

Table listing property companies (continued).

RETAILERS, FOOD

Table listing food retailers (continued).

RETAILERS, GENERAL

Table listing general retailers (continued).

SUPPORT SERVICES

Table listing support service companies (continued).

TOBACCO

Table listing tobacco companies (continued).

TRANSPORT

Table listing transport companies (continued).

WATER

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AIM

Table listing companies on AIM (continued).

AMERICANS

Table listing American companies (continued).

CANADIANS

Table listing Canadian companies (continued).

SOUTH AFRICANS

Table listing South African companies (continued).

Advertisement for a recruitment agency: 'OUR TARGETS ARE MET WITH THE ASSISTANCE OF EXUBERANT LOCAL COMMUNITIES. AN EFFECTIVE CONSTRUCTION INDUSTRY AND PUBLIC & PRIVATE SECTOR SUPPORT. A pool of talent. 0800 22 0151'

SUPPORT SERVICES - Cont.

Table listing support service companies (continued).

TELECOMMUNICATIONS

Table listing telecommunications companies and their performance metrics.

TEXTILES & APPAREL

Table listing textiles and apparel companies and their performance metrics.

TOBACCO

Table listing tobacco companies (continued).

TRANSPORT

Table listing transport companies (continued).

WATER

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AIM

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CANADIANS

Table listing Canadian companies (continued).

SOUTH AFRICANS

Table listing South African companies (continued).

GUIDE TO LONDON SHARE SERVICE

Guide to London Share Service: Prices for the London Share Service delivered by FT Data, a member of the Financial Times Group. Company share prices are based on those used for the FT-SE 100 Index.

FT Free Annual Reports Service

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FT Company Focus / Focus Plus

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LONDON STOCK EXCHANGE

MARKET REPORT

Less than energetic Footsie slides below 3,700

By Steve Thompson, UK Stock Market Editor

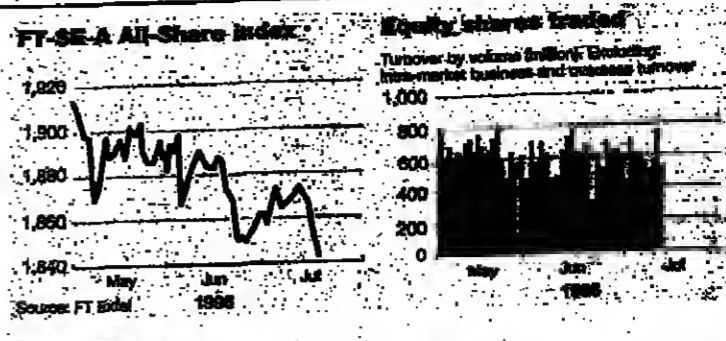
One of the most disappointing market debuts by a privatisation stock, renewed worries about Wall Street and a retreat by gilts produced a subdued performance by FT-SE 100 index below 3,700.

in a dog market", and said their performance had been one reason why the institutions had been reluctant to push money into equities. "It is being taken by some fund managers as a signal that the bull market might have finally run its course," he added.

where the FT-SE Mid 250 index also moved back through a psychologically important level, dropping 24.9 to 4,291.6.

Dealers spoke of worrying developments in the biotech stocks, which figure prominently in the Mid 250 index. British Biotech was one of the poor performers in the sector, as traders fretted about the possibility of a poor take-up of the rights issue, while Scotia Holdings and Chromadence were other underperformers in the sector.

at the 6pm count, volume in equities reached 663.9m shares. Retail business in the market last Friday was valued at £1.78bn.



Indices and ratios table with columns for Index Name, Value, Change, and Ratio. Includes FT-SE 100, FT-SE Mid 250, FT-SE All-Share, and various ratios like P/E and Dividend Yield.

P&O up on 'split' talk

Transport and property group P&O sparked as the subject of its demerger was raised once again in a note published by IHS.

Energy fall-out

Last in the government's list of privatisations - and arguably least - British Energy dominated the volume and mood in London.

about whether it intends to acquire Docks de France, a French super-market chain. A French bid, said analysts, would be costly and heavily dilutive.

late in the day. The shares fell 7 to 478p, but dealers reported further switching into the stock from British Airways.

affected Boots, which fell 10 to 572p. Analysts said Boots could market share if the law were changed but gross margins would be lower.

Shares in a number of companies criticised by Mr Jeremy Smith in a new edition of his book, Accounting for Growth, remained under a cloud. The list included BTR, down 5% to 235p, Tomkins, 9 to 264p, and SmithKline Beecham, 10 to 685p.

FUTURES AND OPTIONS

Table of futures and options prices for FT-SE 100 Index Futures (LFFE) and Options (LFO). Columns include Open, High, Low, and Change.

MARKET REPORTERS:

Peter John, Joel Kibazo, Lisa Wood.

TRADING VOLUME

Table of trading volume for major stocks yesterday. Columns include Stock Name, Vol. (Shares), and % Change.

FINANCIAL TIMES EQUITY INDICES table showing index values for FT-SE 100, FT-SE Mid 250, and FT-SE All-Share for various dates.

SEAO bargains table showing prices for various equities like Anglo American, Anglo Coal, Anglo Gold, etc.

FT-SE AIM table showing index values for the FT-SE AIM index.

London market data table showing total value, total falls, and other market statistics.

LONDON RECENT ISSUES: EQUITIES table listing recent IPOs and their prices.

FT GOLD MINES INDEX table showing gold mining stock prices.

FT-SE Actuaries Share Indices table showing prices for various actuarial shares.

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restrictions on ferry alliances, a move which analysts said would enable P&O to rationalise its ferry services across the Channel, possibly through combining its operations with those of a rival.

Turnover in the partly-paid tranche of this unpopular debutante reached 163m shares and the price, which opened at 106p, slid back to end the day at 94p.

sentiment was not helped generally by selling on Wall Street and lack of enthusiasm in London. More specifically, the closure of two of the subject's nuclear reactors last week added to the woes surrounding the float.

Yesterday's slide represented a 10.5 per cent loss to the institutional investors and a 6 per cent loss for individual buyers.

One analyst said that although BZW, which oversaw the flotation, was still stabilising the price, a yield of 9 per cent also offered quite a strong argument for stemming the slide.

However, he added, the only winner was the government. "It may not have made as much money as it hoped, but at least it can refute any opposition claims that it had sold the company too cheaply."

Tesco fell a further 11 to 278p, on trade of 10m shares, as the market grew more anxious

about whether it intends to acquire Docks de France, a French super-market chain. A French bid, said analysts, would be costly and heavily dilutive.

Analysts suggested there might be some switching from Tesco into J. Sainsbury, which rose 6 to 370p.

BAT Industries, the tobacco and insurance conglomerate, rallied 6 to 484p following the announcement that it has restructured its UK financial services operations.

RTZ, one of the world's biggest mining groups, receded 16 to 907p as HSBC James Capel became the latest broker to downgrade forecasts.

Reuters, the news and financial information organisation, dropped 17 to 789p in spite of launching its 3000 series of new products for financial markets with demonstrations to clients.

Mr Brian Newman of Henwood Financial Times Equity Indices said the market was "not very positive, but the stock was highly rated and there was a certain amount of selling coming out of New York ahead of interim figures on July 24."

Pearson bounced from Friday's six-month low on a week-end press report that the company had begun the search for a replacement to Mr Frank Barlow, the managing director.

The report boosted hopes that the company will focus on a smaller number of businesses. Pearson rose 2 to 649p.

A sizeable bought deal in Royal Insurance as part of the "tidying up" ahead of the merger with Sun Alliance saw turnover in the former reach 16m. The shares had been held in Sun Alliance's portfolio. Royal dipped 8 to 383p and Sun 9 to 369p.

UK airports operator BAA was the subject of profit-taking

Great Universal Stores recovered slightly after last week's results, rising 8 to 644p. One analyst said last week's fall was overdone. Media speculation over whether retail price maintenance laws may be abolished for drugs adversely

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Sportswear group Pentland added 2 at 120p on hopes of a big return for its stake in Authentic Fitness Corporation, which is the subject of a bid from Warnaco. Pentland had 20p cent and it said yesterday that, unless a higher offer was forthcoming, it intended to vote against it.

British Biotech slipped sharply in the mid-pair shares as the success of its rights issue appeared to be in doubt.

The slide from 16 to 2p reflected a fall of 18, to 2040p, in the fully paid. At the closing level the shares were at a discount to the rights issue price of 205p. Analysts said that, while leading institutional shareholders would probably be duty-bound to take up the issue tomorrow, there would be no apparent benefits for smaller investors.

J.D. Wetherspoon fell 49 to 869p amid rumours of selling by US investors, which hold a substantial percentage of the company.

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Proposed sale of railway workshop businesses at Acton

London Underground Limited (LUL) invites expressions of interest in the sale of its Railway Engineering Workshop (REW) and Train Modification Unit (TMU) businesses. REW and TMU are both located in premises, which will be leased to them, at London Transport's Acton Works, a site of some 30 acres in West London. The TMU premises are connected to the Underground network through the Piccadilly and District Lines, and are adjacent to a Railtrack freight line.

The businesses

- REW
- Undertakes the overhaul, heavy maintenance and testing of a range of rolling stock components and also signalling and electronic equipment used at trackside and stations throughout the LUL network.
- Equipment overhauled includes traction motors, compressors, motor alternators and generators, electrical and mechanical sub-assemblies, and wheelsets.
- Comprises a modern, purpose built workshop fully equipped with overhead lifting equipment together with office and canteen facilities.
- Will have medium-term contracts for the overhaul of LUL equipment.

TMU

- Located in separate building, TMU undertakes the modification of LUL rolling stock, involving a range of safety and engineering modifications, and the refurbishment of bogies.
- Will have contracts for modification programmes for LUL rolling stock over a 2-year period.

The opportunity

A significant opportunity to acquire rail maintenance and repair businesses with the potential to serve train operators on both the Railtrack and Underground networks.

Financial information for year ended 31 March 1996

Turnover £28.7m (REW: £18.4m - TMU: £10.3m)

Permanent employees at year end 337 (REW: 242 - TMU: 95)

To register an interest in purchasing the businesses contact:

John Nuttall

West Merchant Bank Limited

33-36 Gracechurch Street

London EC3V 0AX

Telephone: +44 171 623 8711

Fax: +44 171 626 5262

Interest should be registered as soon as possible, but no later than 5 August 1996

This advertisement is issued by London Underground Limited and has been approved solely for the purposes of Section 57 of the Financial Services Act 1986 by West Merchant Bank Limited, a company regulated by The Securities and Futures Authority.

FT-SE Actuaries Share Indices

The UK Series

Table of FT-SE Actuaries Share Indices for various sectors like 10 MINERAL EXTRACTION, 11 Extractive Industries, etc.

Table of FT-SE Actuaries All-Share index and other related indices.

Table of FT-SE Actuaries 350 Industry baskets including 30 CONSUMER GOODS, 31 Alcohol, 32 Food Products, etc.

Table of FT-SE Actuaries 350 Industry baskets including 33 UTILITIES, 34 Chemicals, 35 Pharmaceuticals, etc.

Table of FT-SE Actuaries 350 Industry baskets including 36 INVESTMENT TRUSTS, 37 FT-SE ALL-SHARE, 38 FT-SE Pledging, etc.

Table of Hourly movements showing stock price changes throughout the day.

Table of FT-SE Actuaries 350 Industry baskets including 39 Banks, 40 FT-SE All-Share, etc.

Additional information on the FT-SE Actuaries Share Indices is published in Security Issues.

The FT-SE Actuaries Share Indices are calculated by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

Table of stock market data for various regions including Europe, Asia, and Africa. Columns include country, stock name, price, and change.

As builder of the Space Shuttle and its main engines, Rockwell continues to explore the frontiers of space

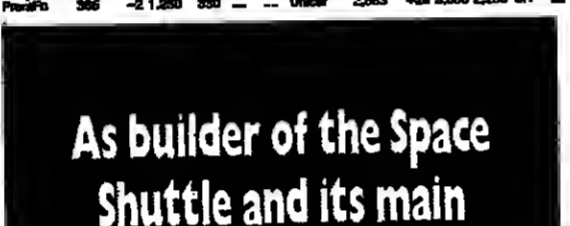


Table of stock market data for Europe, including countries like Germany, France, and Italy.

Table of stock market data for Asia, including Japan, Korea, and Singapore.

Table of stock market data for Africa, including South Africa and Nigeria.

Table of stock market data for Oceania, including Australia and New Zealand.

Table of stock market data for Latin America, including Brazil and Mexico.

Table of stock market data for the Middle East, including Israel and Turkey.

Table of US stock market indices including Dow Jones, S&P 500, and NASDAQ.

Table of US stock market data for various sectors and individual stocks.

Table of international stock market data for various countries and regions.

Table of international stock market data for various countries and regions.

Small print at the bottom of the page containing legal disclaimers and publication information.

4 pm close July 15

NEW YORK STOCK EXCHANGE PRICES

Main table containing stock prices for various companies, organized by sector and alphabetically. Includes columns for stock name, price, and change.

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NYSE PRICES

Main table of NYSE stock prices, organized into columns with headers for stock symbols, prices, and changes. Includes sub-sections for 'Continued from previous page' and various market indices.

NASDAQ NATIONAL MARKET

Main table of NASDAQ stock prices, organized into columns with headers for stock symbols, prices, and changes. Includes sub-sections for various market indices.

AMEX PRICES

Table of AMEX stock prices, organized into columns with headers for stock symbols, prices, and changes.

Advertisement for 'Spain' featuring a large graphic of the word 'Spain' and text promoting financial services and delivery options.

Continuation of the NASDAQ and AMEX stock price tables, including various market indices and individual stock listings.

AMERICA Dow slides 55 points by midsession

US shares continued to move lower at midsession as investors fled many of the year's high flying technology issues...

At 1pm, the Dow was 56.04 weaker at 4,455.2. The Standard & Poor's 500 lost 6.06 at 640.13...

The Pacific Stock Exchange technology index lost 2.6 per cent and the American Stock Exchange/Internet Weak index of Internet-related shares was 5.8 per cent lower.

Applied Materials, the semiconductor equipment company, added to growing concerns about profitability in the high-tech sector...

Mexico declines 1.3%

There was further concern in MEXICO CITY as the market broke through the 3,000 support level in the IPC index.

Table with columns: MARKET IN PERSPECTIVE, % change in local currency, 1 week, 4 weeks, 1 year, start of 1996, start of 1995, start of 1994.

FT/S&P ACTUARIES WORLD INDICES

Table with columns: NATIONAL AND REGIONAL MARKETS, US Dollar Index, Day's Change, % Change, P/E Ratio, Dividend Yield, etc.

EUROPE Mediastet debuts at premium in tumbling Milan

The market debut of Mediastet, Mr Silvio Berlusconi's media company, provided the only semblance of a bright spot on an otherwise dismal day in Milan.

The Mediastet shares began trading at L7,550 and subsequently settled back to close at L7,318.

The broad market tumbled 2.3 per cent as a number of political and economic worries made for a pessimistic performance.

Mr Nicholas Potter at Credit Italia said that the market had been pressured by concerns over wages growth next year...

ASIA PACIFIC Nikkei ahead despite expectation of discount rate rise

The Nikkei average rose on late buying in spite of reports of an imminent increase in the official discount rate.

High-technology stocks lost ground. Hitachi fell Y20 to Y1,010 and Toshiba, the day's most active issue, declined Y9 to Y751.

Steels and shipbuilders were mixed. Nippon Steel firm Y1 to Y346 and Kawasaki Heavy Industries gained Y1 to Y307.

Volume, at 234m shares, was the lowest of the year as investors remained inactive ahead of US congressional testimony by Mr Alan Greenspan...

Overseas investors maintained a cautious stance, taking profits on holdings, especially in the electrical machinery, steel and shipbuilding sectors.

The Topix index of all first section stocks slipped 2.78 to 1,944.47 and the Nikkei 300 closed 0.39 easier at 304.41.

Declines led advances by 532 to 410, with 211 issues remaining unchanged.

In London the FTSE 100 index shed 0.53 to 1,482.06. A report on Sunday by the Yomiuri Shimbun, a leading newspaper, that the Bank of Japan was poised to raise the official discount rate...

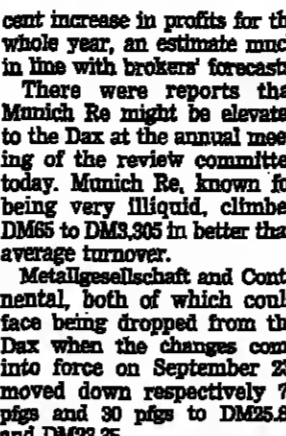
Interest rate concerns depressed banks, with Industrial Bank of Japan off Y10 to Y2,510 and Bank of Tokyo-Mitsubishi surrendering Y30 to Y2,300.

Brokers were lower on fears that current volumes could hit earnings. Nomura Securities dipped Y10 to Y1,980 and Yamachi Securities Y5 to Y686.

Sankyo, the drugs company, which rose sharply last Friday on reports of its new anti-diabetic drug, slipped Y20 to Y2,850.

Profit-taking hit oil refiners. The Topix index of all first section stocks slipped 2.78 to 1,944.47 and the Nikkei 300 closed 0.39 easier at 304.41.

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Siemens Share price (D-Mark)

Metallgesellschaft and Continental, both of which could face being dropped from the Dax when the changes come into force on September 23, moved down respectively 70 pips and 30 pips to DM25.50 and DM23.35.

Escom, the computer retailer, slid 48 pips, or 28 per cent, to DM1.42 on news it was filing for bankruptcy.

AMSTERDAM was unhappy, with a number of factors, including expectations of a disappointing results season, adding to the gloom.

Philips was one of the casualties ahead of its second-quarter figures next week and the shares settled at a new low for the year of F180.80.

Siemens pleased investors with its good nine months' data but, after moving ahead to DM90.45 on the floor, it closed a marginal 27 pips up at DM93.01.

Abold receded F11.30 to F188.70 ahead of the pricing of its F1.2m share issue.

PARIS went sour, with the CAC-40 index declining 21.04 to 2,029.51. Turnover was some Ffr4m.

Cerus dipped Ffr6.45, or 6.5 per cent, to Ffr58.50 on expectations that a planned Ffr1bn convertible bond issue might be postponed or cancelled.

Thomson-CSF was off Ffr4.70, or 3.3 per cent, at Ffr137, and there were reports that Thomson, the parent group, would hand its report on privatisation to the government very soon.

ZURICH was weak in very thin trade, with activity dampened by caution ahead of US inflation data today and weighed by sell programs.

Another high for the year of FMS28.00 after a weekend press report that reviewed the history of its cholesterol-reducing margarine, Benecol.

Benetton, the mobile phones manufacturer, lost FMS3.50 to FMS7.00, as delays in launching a GSM product continued to weigh on the stock.

TEL AVIV continued to experience heavy falls as the problems in the country's provident fund industry deepened.

There are estimates that public withdrawals from provident funds in July could reach Shk4bn, compared with June's Shk1.1bn.

Bank Hapoalim declined 4.25 per cent to Shk438.

WABSAW recovered some of last week's loss, but there were doubts that the rebound would be long lasting.

The Wig index rose 124.7, or 1 per cent, to 13,394.3 and turnover was up 4 per cent to 101.2m tons.

FT-SE Actuarial Share Indices

Table with columns: Jul 15, Daily Change, Open, 12.30, 11.00, 12.00, 12.30, 12.50, 1.00, 1.30, 1.50, Close.

Against the trend, pharmaceuticals were actively traded. Roche certificates were down Sfr65 to Sfr19,555 and Sanofi gave up Sfr18 to Sfr1,431.

Nestle registered shares fell Sfr78 to Sfr1,456 ahead of half-year sales figures, expected Sfr29bn, compared with Sfr27bn a year ago.

BRISBANE was easier as Nokia extended its losses to match its softer opening in New York.

Analysts said that investors were now awaiting corporate results for the first half, which are due to be released on Thursday.

Written and edited by Michael Morgan and John Pitt

THE EUROPEAN SHARES

Table with columns: Jul 15, Daily Change, Open, 12.30, 11.00, 12.00, 12.30, 12.50, 1.00, 1.30, 1.50, Close.

index shed nearly 7 per cent. SYDNEY remained gripped by worries about the direction of the US market.

Support came early in the session on reports of strong demand for the government's offering of shares in Commonwealth Bank New CBA shares.

CEA ordinary fell 12 cents to A\$10.1. Among other banks, National Australia Bank slipped 7 cents to A\$11.38.

TAIPEI was weaker as foreign funds sold stock. The weighted index eased 54.36, or 1 per cent, to 6,062.52.

BOMBAY was higher in volatile trade dominated by a sharp rise in Reliance Industries in record trading volume.

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# SIEMENS NIXDORF

## San Jose/Munich: Cross Atlantic program makes European market expertise available to U.S. software houses.

With their new Cross Atlantic initiative, Siemens Nixdorf and its subsidiary, Pyramid Technology are now offering independent software vendors in the United States new ways to reach the European IT market. Launched in January 1996, the program is part of Siemens Nixdorf's Global Alliance Partner project aimed at facilitating global partnerships in the UNIX and NT market. The Cross Atlantic initiative is being driven by two objectives: to attract partner solutions for the Siemens Nixdorf server and to support these partners in marketing their solutions in Europe.

Siemens Nixdorf is serving as the general contractor and is being supported by two independent project partners: Los Angeles-based

ACE (Advanced Consulting Enterprise) and Evosoft Softwarevertrieb of Nuremberg. ACE is offering support for new partners in project planning and is coaching them on how to localize their solutions to satisfy European market requirements. Evosoft is contributing both sales and marketing personnel as well as logistics.

The major benefit to the ISVs who join this is a significant reduction in the costs and risks of entering the European market. In the medium term, the program will also work in the opposite direction: to smooth the way for European software vendors into the American marketplace.



### GOS and Siemens Nixdorf

## Turku/Hamburg: Siemens Nixdorf partner serves up fast solutions for fast food chain.

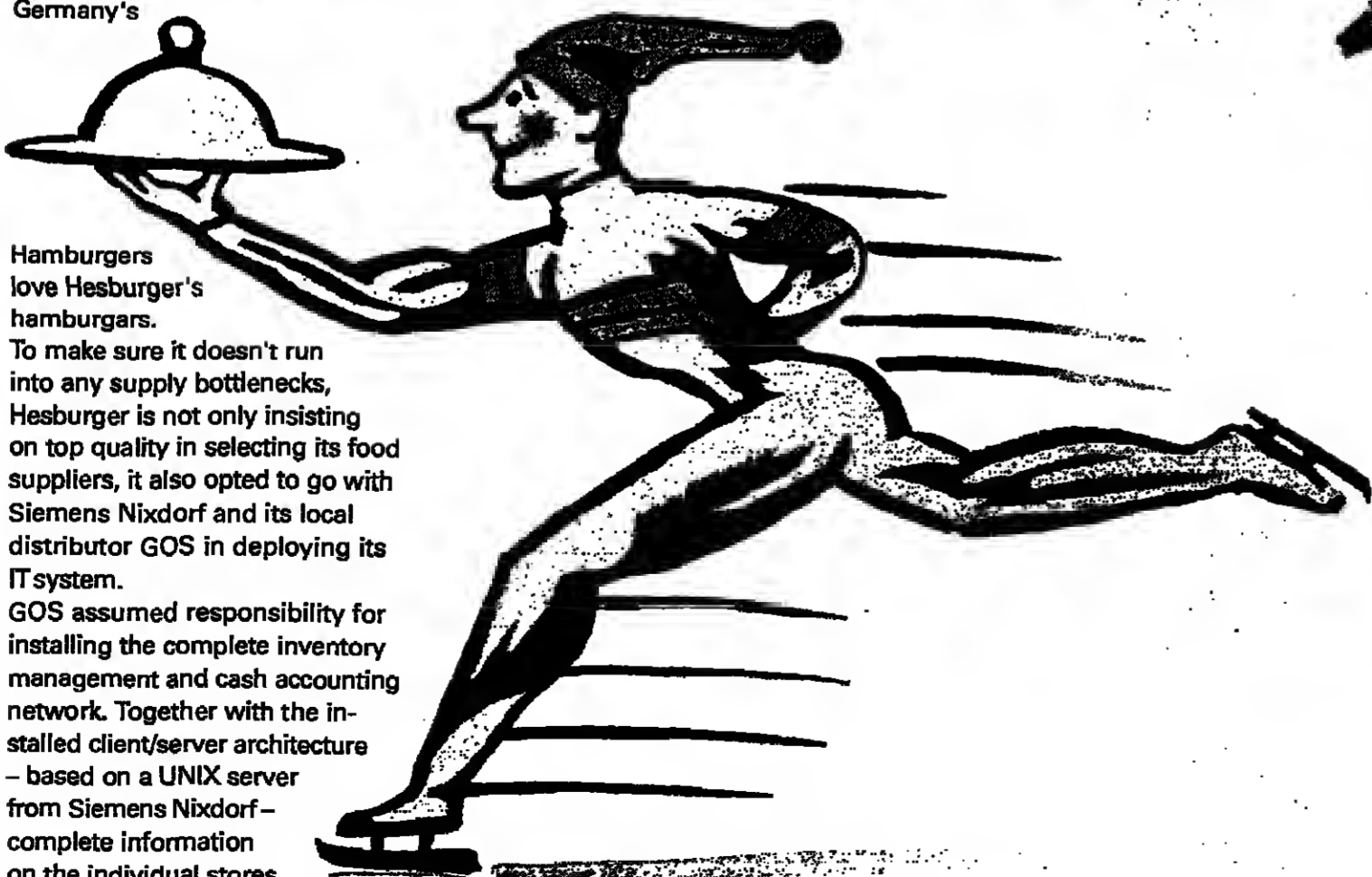
In Finland, everyone knows the mouth-watering beefburgers from Hesburger. And now, Finland's market leader in the premium fast food sector has set out to conquer the German market too. The Hesburger fast food chain has now opened its first German store in Hamburg (of all places). And Germany's

Hesburger's headquarters in Turku, Finland. The installed IT solution is designed so that it can easily be adapted at any time to meet Hesburgers changing needs. Which means that there are now no longer any obstacles to fast growth for Hesburger - even beyond Hamburg's city limits.

Hamburgers love Hesburger's hamburgers.

To make sure it doesn't run into any supply bottlenecks, Hesburger is not only insisting on top quality in selecting its food suppliers, it also opted to go with Siemens Nixdorf and its local distributor GOS in deploying its IT system.

GOS assumed responsibility for installing the complete inventory management and cash accounting network. Together with the installed client/server architecture - based on a UNIX server from Siemens Nixdorf - complete information on the individual stores can now be queried directly from



### GMRS Software and Siemens Nixdorf

## Bonn: Deutsche Telekom adds more intelligence to the network.

A pioneering enhancement to the IN Intelligent Networks system that was deployed at Deutsche Telekom in 1992 is now setting new standards in the development of customized value added telephone services. IN96, as the project is called, is presently undergoing pilot testing. It is slated to soon be brought to market as a commercial product.

The heart of the solution consists of the Advanced Service Design Tool Kit, in whose development Siemens Nixdorf partner GMRS Software and the University of Passau played a major role. This is a graphical programming system that allows basic functions to be utilized in implementing new value added services for telecommunication providers. In addition to shortening



development cycles even further, it also affords users brand new options for custom-tailored solutions. Siemens Nixdorf implemented this project - from development to systems integration to training - under the lead of the Siemens Public Communication Networks Group. Numerous servers from the RM family are being used. IN96 is based upon the GA/IN Global Advanced Intelligent Networks world market solution, a joint development by Siemens and Siemens Nixdorf. With IN96, Deutsche Telekom and Siemens Nixdorf continue to have their sights set on success. And further joint development activities are helping to ensure the creation of powerful solutions today for the needs of tomorrow.

For further information, please contact:

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Put a mobile telephone to your ear and your head absorbs electro-magnetic microwaves from the antenna as part of the radio transmission that makes the phone function. The question being investigated by increasing numbers of research scientists is whether this radiation can damage your health.

Some scientists are sufficiently worried about the effects to recommend modified use of mobile handsets. A few even advise not using them at all. Most are more sanguine, insisting that no research to date suggests serious cause for concern.

But all agree that research has fallen well behind the explosive growth in use of mobile telephones worldwide, with subscriber numbers increasing at a rate of 50 per cent a year, reaching 85m worldwide in 1995.

There is a consensus - which includes, however grudgingly, the mobile manufacturers and operators - that more research is required before a definitive answer can be given on whether using mobile phones threatens to cause or exacerbate a range of conditions from brain cancer, through asthma, to headaches and nausea.

"We cannot draw any firm conclusions and say there is no health hazard," says Kjell Hansson MId, a leading researcher in Sweden, where mobile telephone penetration has reached 25 per cent of the population - the highest in the world along with neighbouring Norway. "On the other hand, with the knowledge we have today, there is no immediate cause for concern. But in view of the increasing number of users it is important to find out what is really going on."

### Digital handsets have been shown to interfere in some circumstances with heart pacemakers

Research to date has already established one possibly dangerous effect of mobile phones: digital handsets have been shown to interfere in some circumstances with heart pacemakers, prompting a warning to users from US and Canadian health authorities.

But the picture is much less clear when it comes to the biggest fear - that of possible links to cancer or other serious conditions such as Alzheimer's disease. Last year, a US court threw out a lawsuit by a man who claimed his wife had died of a brain tumour caused by using a mobile telephone, saying there was no scientific evidence to support his allegation.

More people use a handset every day but researchers are unable to say how safe they are, writes Hugh Carney

# Mobile phones brain teaser

Health Organisation stress the lack of evidence. But a rash of new studies testify to the doubts that still exist.

● Last month, concerns about mobile telephone growth prompted the WHO to launch a \$3.5m (€2.1m), five-year project to study the possible health effects of all electric and magnetic fields from a range of devices, including microwave ovens and electric razors, as well as mobile phones.

● The European Commission has set up a 10-strong panel of experts - to which Hansson MId belongs - to review the research done so far worldwide and to recommend further areas of investigation.

● In late June, the Wireless Technology Research group in the US, funded by the telecoms industry but with an independent structure, said it was funding a 2½-year \$400,000 study by the American Health Foundation to examine the possible risk of brain cancer from cellular telephones.

● Sweden's Arbetslinstitutet, the state occupational health organisation, is conducting an epidemiological study of 10,000 mobile subscribers in Sweden and Norway on subjective disorders such as headaches, nausea, memory lapses, skin rashes and irritation attributed by some to mobile phone use.

The chief source of concern about mobile phones is the radio transmitter - the device's most vital component. Mobile phones work by using radio waves to link to radio base stations, which can be several kilometres away. The base stations in turn are linked to the switching stations which together make up a mobile network.

The radio in a mobile handset emits electro-magnetic signals, or microwaves, similar to those in a microwave oven. Although many modern electronic devices emit such radiation in varying strengths, few are held as close to the brain as a mobile phone. This has led to some alarmist headlines about mobile phones "cooking" the brain. In fact, the power levels used in a mobile phone, at around 1W or less, are very compared with a microwave oven operating at 600W or



Few electronic devices are held as close to the brain as a mobile phone.

more - and not all the power is absorbed by the head when making a call.

Police and military around the world have used hand-held radio sets - often more powerful than modern mobile phones - for years. The output levels of mobile handsets are already operating within standards set by national and international authorities. The operators and manufacturers say there is no cause to suspect that mobile phones pose a danger.

"We have been studying this for

as long as we have been making mobile phones - how the signals behave, how they penetrate different materials and how they are reflected," says Nokia, the Finnish group, which is the world's second-largest supplier of mobile handsets. "There is no evidence whatsoever of any damaging effects on users of mobile phones."

But independent researchers are more equivocal. Some have conducted experiments which suggest that the heating effect caused by microwave emissions in the brain

can affect cells in a way that gives grounds for concern.

Prominent among these has been research at the University of Washington in Seattle which showed damage to the DNA in the brain cells of rats exposed to levels of microwave emissions similar to those from mobile phones. Such damage could possibly lead to the development of cancer or Alzheimer's. This was featured in a BBC television programme recently, which also cited similar work done at St Vincent's Hospital in Sydney, Australia, showing that microwave exposure could affect cells in a way that could exacerbate asthma.

"I have a mobile phone but now I use it only when absolutely essential," Peter French, president of the Australia and New Zealand Cellular Biology Society, told the BBC. "I switched bars if the call goes on longer than a minute or two."

In Europe, studies on the possible effect of microwave exposure on human cells from both base stations and handsets have been carried out at VITO, the Flemish Institute for Technology Research in Belgium. Luc Verschaeve, a member of the European Commission's group of experts who carried out the work, says VITO has seen no effect on DNA to suggest that exposure to mobile phones could be a direct cause of cancer development.

But, he says, there were "synergistic" effects in certain circumstances where the microwave exposure appeared to increase the potency of other chemical carcinogens in human blood cells. This happened when the cells were exposed for two hours to 1.5W per kilogramme of microwave radiation.

Verschaeve, however, is not unduly disturbed by his findings, which he says represent "more than a worst case situation" compared with normal mobile telephone use.

"I don't agree with statements that it is dangerous to use mobile phones," he says. "So far, I personally would not be alarmed. But we need more research to be sure."

The manufacturers may in any case produce a solution. They are striving to reduce the power output of mobile phones in order to increase the time they can be used without having to charge or recharge the battery. Latest digital phone systems are also using higher radio frequencies, which penetrate less far into the body. Users worried about possible ill-effects can already buy an earpiece and microphone.

In the meantime, Hansson MId draws a very cautious conclusion. "I think you are most likely to be injured from mobile phone use by crashing your car while talking and driving at the same time. But from a world health perspective we have to look into these other issues further."

## Virus platform for gene project

### Clive Cookson on clinical trials of a treatment for viral infections

Cantab Pharmaceuticals, the UK biotechnology company, announced yesterday the start of clinical trials of its disabled-virus technology, which could have great potential both for treating and preventing viral infections and as a delivery vehicle for gene therapy.

The Disc (Disabled Infections Single Cycle) system produces a virus that activates a full immune response in its host but cannot spread from cell to cell.

Cantab and its collaborating scientists at Cambridge University are concentrating on the herpes virus, although the Disc approach is applicable in principle to many other viruses.

By deleting a gene that is essential for replication (glycoprotein B) they have created a virus that can complete only one round of infection.

The company has received permission from the UK Medicines Control Agency to begin clinical trials of its Disc HSV product, a vaccine designed to treat and prevent genital herpes. It expects to receive approval from the US Food and Drug Administration in time to start a parallel trial in the US later this year.

Volunteers will be screened to discover whether they are "seropositive" for HSV-2, the virus that causes genital herpes - in other words, whether they are infected.

The UK trial will test Disc on subjects who are seropositive but not currently suffering symptoms of the disease, to see whether it can prevent future outbreaks of genital sores. The US trial will use seronegative subjects, to see whether it can prevent infection in the first place.

The initial Phase I trials, to investigate the product's safety and its ability to stimulate an immune response in different doses, will be followed by more extensive Phase II trials next year. These will measure its effectiveness at preventing herpes infection or disease.

Animal tests suggest that both effects can be achieved with remarkably small doses of Disc

HSV - less than a millionth of a gramme of disabled virus.

Disc HSV could be an important product in its own right (Lehman Brothers analysts predict peak sales of more than \$55m [€160m] a year). But Cantab executives are becoming more excited about Disc's potential as a "platform technology" for gene therapy - an application that they had not thought of when Disc was first announced in 1993.

"Within the past 12 months our research team has recognised the potential of Disc HSV as a safe and effective delivery system for introducing new genes into cells of the body," says Stephen Ingtis, research director. "This discovery has led to the initiation of a whole series of product development programmes for Cantab in the areas of cancer and gene therapy. The clinical experience we gain from these Disc HSV trials will help enormously to speed them along."

The reason why Disc is looking promising for gene therapy is that other "vectors" used so far to deliver new genes into cells - such as genetically engineered viruses and liposomes (microscopic fatty particles) - seem to be ineffective and/or to cause side-effects.

The first clinical trial of Disc HSV for gene delivery is scheduled to start next year, says Paul Haycock, Cantab's chief executive. It will carry genes for "immunosuppressants" proteins into cancer cells; these are designed to make the cells more visible to attack by the patient's immune system.

Cantab is negotiating collaborative agreements with several pharmaceutical companies to exploit Disc technology, and Haycock expects to announce at least one deal later this year. The only agreement so far is with Pfizer of the US, which is developing Disc-based veterinary vaccines for a range of animal diseases.

"It has become a biotech cliché to talk about platform technologies but we really do have one here," Haycock says. "The long-term potential of Disc is huge."

akom adds the network

## BUSINESS OPPORTUNITIES

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FINANCE DIRECTOR needed for ISA joint venture aimed at owner managed business in the London Area. Please fax your CV to The Hamilton Group Ltd. 0171 839 8386

VENTURE CAPITAL WORLD http://www.venturecapitalworld.com  
Tel: 045 708 814 330  
Tel: 045 708 814 330

### FINANCE DIRECTOR needed for ISA joint venture aimed at owner managed business in the London Area. Please fax your CV to The Hamilton Group Ltd. 0171 839 8386 VENTURE CAPITAL WORLD http://www.venturecapitalworld.com Tel: 045 708 814 330 Tel: 045 708 814 330

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Tel: 01928 725696. Fax No: 01928 725650

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The Sale of BR Research
British Railways Board proposes shortly to offer for sale BR Research, which operates as a commercial business unit within BR's Central Services division.

Housewares Distributor
London E15
The main activity of Heritage plc, Heritage Housewares Limited, Heritage Toys and Gifts Limited, Heritage Boulevard Limited (All in Receivership) is distribution of housewares to large UK multiple retailers and independents.

Taplow House Hotel, Nr Maidenhead
Peter Copp and Tony Supperstone of BDO Stoy Hayward, the joint Administrative Receivers of Cambrianlake Limited, offer for sale the freehold property, business and assets of Taplow House Hotel.

LIQUIDATIONS AND RECEIVERSHIPS
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## CONTRACTS &amp; TENDERS



**APV RT.**  
HUNGARIAN PRIVATISATION  
AND STATE HOLDING COMPANY

## TENDER ANNOUNCEMENT

1. The Állami Privatizációs és Vagyonkezelő Rt. [Hungarian Privatisation and State Holding Company] (hereinafter referred to as "the Announcer" or "APV Rt.") (1133 Budapest, Újpesti rakpart 31-33) is announcing an open single-round tender for the purchase of shares in the state-owned Ganzeg West Hungary Rt. (hereinafter referred to as "the Company"), which is registered under number Cg. 20-10-040063/31 and has its headquarters at 8901 Zalaezerszeg, Balatoni út 11.

The Company's issued share capital amounts to HUF 812,000,000.

The Company's capital net worth is HUF 540,758,000.

Shares in the Company are distributed in the following manner:

APV Rt. HUF 522,000,000 (64.3%)

Hungarian State Treasury HUF 290,000,000 (35.7%)

Bids can be submitted for the share package that constitutes 90% of the issued share capital (a 54.3% ownership interest held by APV Rt. and the 35.7% held by the Hungarian State Treasury).

2. Once the tender has been concluded, APV Rt. will, in accordance with law, offer the Company's employees a share package representing 10% of the issued share capital with a nominal value of HUF 81,200,000 (eighty-one million two hundred thousand forints). The employees will be entitled to exercise an employee discount of up to 50% of the price quoted in the accepted bid. Employees will be entitled to purchase shares within sixty (60) days of the day on which the winning bid is announced.

3. Bids must be in Hungarian in five counterparts, and they must be submitted in unmarked envelopes at the address indicated. Foreign bidders are entitled to submit their bids in English as well as Hungarian, but the Hungarian counterpart will be considered authoritative.

4. Bids must be presented in person or by proxy. They must be submitted in the presence of a notary public at the designated time. Proxies must prove their authorization to represent their principals and the extent of such authorization with notarized documents or fully enforceable private documents. The notary public will inspect the validity of these documents.

The following text must appear on the envelope:

"PÁLYÁZAT Ganzeg West Hungary Rt."

5. Bidders must indicate the original counterpart by the word "EREDETI." Should bidders fail to do this, the Announcer will choose one of the submitted copies, which will thereafter serve as the original counterpart. Should there be any discrepancy between the counterparts, the contents of the bid designated as the original will be authoritative.

6. Bids must be submitted

between 12:00 noon and 2:00 p.m. on 16 September 1996.

Bids must be submitted at

Állami Privatizációs és Vagyonkezelő Rt.  
1133 Budapest, Újpesti rakpart 31-33.  
Eighth Floor  
Room 804

7. The bids' financial and other conditions and the method and schedule of payment

A minimum of 60% of the purchase price must be paid in cash. The remaining part of the purchase price must be paid in cash or in the following manner.

Bidders are entitled to bid for no more than 40% of the purchase price with compensation notes or E-credit. Foreigners can only use compensation notes that have been issued directly to them. The Announcer considers compensation notes at 174.2%.

E-credit may be used for up to half of the bid price, but no more than HUF 50 million. The self-financing part of the E-credit cannot be included in the part of the purchase price that is to be paid in cash or in the part that is to be paid in compensation notes.

Foreigners are entitled to make bids in those convertible foreign currencies accepted by the National Bank of Hungary. The Announcer will consider foreign currency at the National Bank of Hungary's official middle exchange rate that is valid at the time of submission.

The detailed tender announcement contains the other conditions and requirements of sale.

8. It is a fundamental condition for participation in the tender that bidders commit themselves to their bids for a period of ninety (90) days following the submission deadline.

9. Bidders must remit or transfer HUF 50,000,000 as proof of their intent to purchase to the account that APV Rt. has opened at Magyar Kalkulációs Bank for receiving earnest money, which is specified in the detailed tender announcement before the submission deadline.

The Announcer will manage this amount in accordance with the regulations pertaining to earnest money.

10. The Announcer will make the final decision after evaluation. The Announcer retains the right to declare the tender unsuccessful.

11. The detailed tender announcement and the detailed information brochure prepared by the Company, which contains the economic data necessary for making bids, constitute inalienable parts of the present tender announcement.

The purchase of the bid materials, which contain the detailed tender announcement, for HUF 100,000 + 25% VAT is an indispensable condition for submitting bids. A confidentiality statement must be signed in order to receive this material. Bidders (or individual members of consortiums) must purchase the bid materials directly from the Announcer either in person or by proxy. The Announcer will verify the purchase of the bid materials by issuing a statement of verification.

Proxies must prove their authorization to represent their principals and the extent of such authorization with notarized documents or fully enforceable private documents, which will be inspected by the Customer Service Office.

12. Information on the Company can be obtained from the following persons once the tender has been announced.

KISVÁRI László  
Ganzeg West Hungary Rt.  
8901 Zalaezerszeg, Balatoni út 11  
Tel: 06-92-311-156 Fax: 06-92-311-155

BERECZKY Géza  
Portfolio Manager  
Állami Privatizációs és Vagyonkezelő Rt.  
Részvénytársaság  
1133 Budapest, Újpesti rakpart 31-33.  
Tel: 269-8600, ext. 2657



## Proposed sale of railway workshop businesses at Acton

London Underground Limited (LUL) invites expressions of interest in the sale of its Railway Engineering Workshop (REW) and Train Modification Unit (TMU) businesses. REW and TMU are both located in premises, which will be leased to them, at London Transport's Acton Works, a site of some 30 acres in West London. The TMU premises are connected to the Underground network through the Piccadilly and District lines, and are adjacent to a Railtrack freight line.

### The businesses

#### REW

- Undertakes the overhaul, heavy maintenance and testing of a range of rolling stock components and also signalling and electronic equipment used at tracksides and stations throughout the LUL network.
- Equipment overhauled includes traction motors, compressors, motor alternators and generators, electrical and mechanical sub-assemblies, and wheelsets.
- Comprises a modern, purpose built workshop fully equipped with overhead lifting equipment together with office and canteen facilities.
- Will have medium-term contracts for the overhaul of LUL equipment.

#### TMU

- Located in separate building. TMU undertakes the modification of LUL rolling stock, involving a range of safety and engineering modifications, and the refurbishment of bogies.
- Will have contracts for modification programmes for LUL rolling stock over a 2-year period.

### The opportunity

A significant opportunity to acquire rail maintenance and repair businesses with the potential to serve train operators on both the Railtrack and Underground networks.

### Financial information for year ended 31 March 1996

Turnover £28.7m (REW: £18.4m - TMU: £10.3m)  
Permanent employees at year end 337 (REW: 242 - TMU: 95)

### To register an interest in purchasing the businesses contact:

John Nuttall  
West Merchant Bank Limited  
33-36 Gracechurch Street  
London EC3V 0AX  
Telephone: +44 171 623 8711  
Fax: +44 171 626 5262

Interest should be registered as soon as possible, but no later than 5 August 1996

This advertisement is issued by London Underground Limited and has been approved solely for the purpose of Section 57 of the Financial Services Act 1986 by West Merchant Bank Limited, a company regulated by The Securities & Futures Authority.



**APV RT.**  
HUNGARIAN PRIVATISATION  
AND STATE HOLDING COMPANY

## TENDER NOTICE

The Hungarian Privatisation and State Holding Company (Állami Privatizációs és Vagyonkezelő Részvénytársaság [APV Rt.], 1133 Budapest, Újpesti rkp. 31-33) does hereby inform the interested parties of the upcoming tender announcement for the sale of shares in the recently incorporated Recski Ércbányák Rt. (Recsk Ore Mines Co., former Recski Ércbánya Vállalat), which is fully owned by the state.

Tenders will be invited for a 90% share package in Recski Ércbányák Rt. The remaining 10% will be offered to the employees following the sale. In their bids, investors must assume responsibility for buying the shares that will not be subscribed by the employees.

Interested parties can receive the Information Memorandum concerning the ore deposits in Recsk and the company's proprietary and legal positions by telefax from the Customer Service Office (fax no: 269-8991) or in person at the Hungarian Privatisation and State Holding Company's Customer Service Office 1133 Budapest, Újpesti rkp. 31-33, between 8:00 a.m. and 4:00 p.m. on business days as of 18 July 1996.

## LEGAL NOTICES

IN THE MATTER OF  
SONS LIMITED  
AND IN THE MATTER OF THE  
PROSECUTIONS AGAINST 1996

In accordance with sub 4.7(a) of the Insolvency Rules 1986, notice is hereby given that West Merchant Bank Limited and Hall Henry Cooper of Middle Row, 115 City Road, London EC1Y 1JG were appointed Joint Liquidators of the above company by the court on 4 July 1996.

Dated 16th day of July 1996.

W. BERDOCK and H. COOPER, Joint Liquidators.

## To Advertise Your Legal Notices

Please contact

Melanie Miles on

Tel: +44 0171 673 3308

Fax: +44 0171 673 3064



## HM PRISON SERVICE AGENCY PROJECT QUANTUM

OJEC NOTICE No 96/S 125-72760/EN 2.7.96  
REQUEST FOR EXPRESSIONS OF INTEREST

1. The Home Office Prison Service has initiated the Quantum project to pursue its requirement to procure business services (which may include personnel, finance, human resources and healthcare information for inmates) to support the administration, management, operation and policy function of its prisons (currently approx 130) and headquarters. The Prison Service anticipates the transfer and exploitation of current services including IT and its infrastructure to one or more service providers, following which it is anticipated that the service provider(s) will be responsible for the design, build, finance, management and operation of the services and their supporting negotiated procedure a framework agreement or agreements to call off services from one or more service providers.
2. Delivery of the services will be to Prison Service premises and at various other locations throughout England and Wales and various Home Office premises throughout the United Kingdom.
3. The Prison Service reserves the right to procure the services in a single lot, or to divide the services into one or more lots on a geographic or other basis. However, if the services are divided into lots, service providers must be able to provide all of the services specified above for each lot.
4. Variant bids may be permitted.
5. The duration of the contract or time limits for completion of the service is up to 10 years from completion of implementation.
6. No special legal form is required in the case of group bidders but one member in any group of service providers may be required to accept prime contractorship.
7. The final date for requests to participate: 25 July 1996.
8. Requirements for deposits or guarantees, if applicable, will be stated in contract documentation.
9. All service providers who respond to this Notice will, on or after 26 July 1996, be issued a business prospectus setting out further information about the requirement, and a questionnaire replies to which will be required by 26 August 1996.
10. This requirement is considered suitable for the application of the UK Government's Private Finance Initiative. It is intended to hold a Briefing Conference in London in early August to explain the project more fully. If you wish to attend the Conference and/or receive the Conference briefing material please fax your name and address, stating how many you wish to attend, if applicable, as places will be limited, to Beverley Jeffares, fax number 0171 217 6247.

The Prison Service reserves the right not to award any contracts in pursuit of this requirement.

BUSINESS AND THE LAW

Ban on UK beef not lifted



EUROPEAN COURT

The European Court of Justice has ruled against the UK's attempt to have the beef ban lifted pending the full hearing of its case against the Commission.

reiterated the conditions for the grant of interim relief. First, it was necessary to establish a prima facie case for the suspension of the ban.

Reacting sharply to the Cuban Liberty and Democratic Solidarity (Helms-Burton) Act, as well as the possible enactment of sanctions against foreigners who invest in Iran and Libya or who trade with Libya, the European Union has initiated consultations prior to taking action against the US at the World Trade Organisation (WTO).

Cross-border dilemma

EU action over Helms-Burton would be a mistake, says Christopher Wall



substantial and reasonably foreseeable effect on US commerce is deemed to be subject to US jurisdiction. But it has rarely, if ever, been applied purely, and has been leavened with other jurisdictional theories.

ever, since 1982 Canadian subsidiaries of US companies have presumably been complying with local law, placing their parent companies in violation of US law.

LEGAL BRIEFS



Multi-party actions urged for Scotland

Procedures to allow multi-party actions should be introduced into the legal system in Scotland, the Scottish Law Commission has recommended.

Cost of fraud

Fraud is costing the European insurance industry Ecnbn a year or two per cent of total premium income, the Comité Européen des Assurances (CEA) has estimated.

New judge

Mr Justice Colman has been appointed as the new judge in charge of the High Court's Commercial list in place of Mr Justice Waller.

INTERNATIONAL PEOPLE

Infonet UK Names Alan McLeod Managing Director

London, UK - July 10, 1996 - Infonet Services Corporation announced today that it has appointed Alan David McLeod to be managing director of Infonet UK, Ltd., a wholly-owned subsidiary of the parent company.

Muscat hops across to Fairfax

When Robert Muscat, the new chief executive of John Fairfax Holdings in Sydney, takes up his position on August 1, it may take him time to convince the more suspicious of his new colleagues that he is not a mole for the opposition.

Deutsche Post top job

Some raised eyebrows greeted the choice of Josef Hattig (pictured) as the new head of the supervisory board of Deutsche Post, the German postal service.

Benson takes flight

Kevin Benson, 49, who has just taken over the top job at troubled Canadian Airlines International, says he expects to collect the prizes eventually, but will endure plenty of kicks in between.

Easdaq: new chairman

Stanislav Yassukovich, (pictured), a driving force behind the Eurozone market in its early days and, more recently, an enthusiastic collector of non-executive positions, has just clocked up his eighteenth current directorship by becoming non-executive chairman of Easdaq.

What follows Mandela? South Africa in 1999

Investing in South Africa: the Opportunities and the Political Risks - 1996 and Beyond. Edited by Professor David Welsh and Vuyo Bavuma.

ON THE MOVE

- Thomas O'Neill succeeds Robert Brown as chairman of the Canadian branch of PRICE WATERHOUSE. He is replaced as national managing partner by Michael Mueller.

- Luc Brache, managing director of Volvo Italia in Bologna, has been appointed head of Business Area 400 at VOLVO CAR CORPORATION.

- HARNISCHFEGGER INDUSTRIES, a US mining equipment group which last year took over Dobson Park of the UK after an acrimonious take-over battle.

- DORNIER LUFTFAHRT. Bernard Hiri becomes senior vice-president and chief financial officer at TITAN CORPORATION.

Creative prove

INTERNATIONAL ARTS GUIDE

INTERNATIONAL ARTS GUIDE

JULY 16 1996

ARTS

Opera/David Murray

A parable and fable from a master storyteller

Almeida Opera is running a particularly appealing festival this summer...

It was opera, however, that I want to hear: a double bill by Param Vir, a westernised - or at least, western-acclimatised - 44-year-old Indian composer.

year's Biennale, and the Almeida was quick to snatch them up.

Param Vir and the younger Chinese-American Tan Dun share the newly favoured status of eastern-but-world-oriented composers who can seize western ears.

The original component in Tan Dun's music is rooted chiefly in the delight he takes in ancient ethnic sounds...

westerners in Persian and Indian music. The latter tradition is what informs Vir's work.

about two musicians vying for the post of Player to the King (one young, brash and brilliant, engagingly played by Stephen Rooke as Rik Mayall)

the visible stage siter but for celesta, harp, xylophone, vibraphone and marimba.

Snatched by the Gods is more like a Brecht fable. On a pilgrimage, fraught familial relationships are raised to archetypal roles in a moral adventure-story.

viction, as happens only with good voice-setting.

With David Farr's astutely plain stagings in Angela Davies's designs, the overall effect was splendid but very sharply pointed.

Festival supported by Peter Moores Foundation; Param Vir operas supported by the John S. Cohen and the Britten-Pears Foundations.

Creative tension proves a pull

William Packer celebrates the work of Kenneth Armitage at the Yorkshire Sculpture Park

We are as prodigal and inconsistent in our forgetfulness as at other times we are in our enthusiasm and support.

It has happened many times. Moore and Hepworth in the 1930s did for Epstein, Gill and Dobson who had preceded them, and so in turn, just after the second world war, another group of young sculptors came to challenge them.

Some did survive into other separate and mature reputations, but the rest sank back into that awkward state of being half-forgotten, half-condescendingly remembered as the critical markers of the moment in the sun.

achievement back into the light and with it reminding us of the essential continuity and coherence of the modern British sculptural tradition.

Kenneth Armitage, now 80, who until now enjoyed his first and only major retrospective in this country at the White-chapel in 1959, is the latest beneficiary.

If, in his historical context, he stands as an important transitional figure between the figure-based imagery of Moore and the formal abstraction and more open technical experimentation that came later.

Both indoors, in the Park's Rothy and Pavilion Galleries, and outside in the formal garden below the terrace, the arrangement of the work is thematic and aesthetic rather than chronological.

There is constant engagement with a smooth and polished surface, not hard exactly, but taut and firm like young flesh.

the screen to be punched through as thin as a wafer.

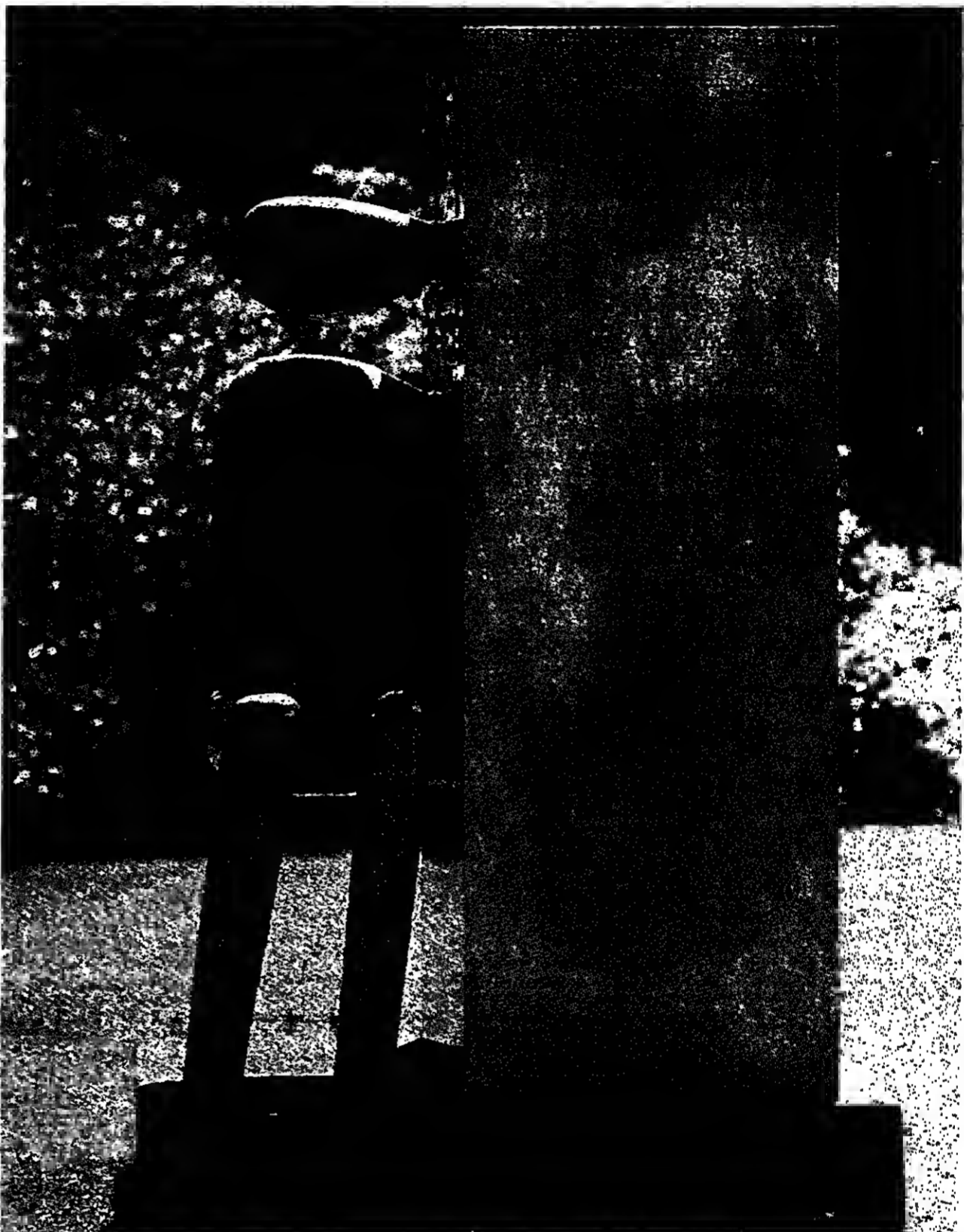
Armitage has always been at heart a figurative artist, at no matter how abstracted the remove.

One particular early work, the small black bronze Standing Woman of 1947, catches it all.

These mark for him the high tide of abstraction in his work, and the shift back towards a more obvious figuration that followed was at odds with the times - which explains perhaps something of his subsequent critical invisibility.

That impulsion, that tidal pull back towards figuration, is indeed an important, perhaps necessary, element in the character of abstraction for the creative tension, it generates between form and content.

Always interesting are those artists who like Kenneth Armitage, recognise it and respond to it.



Kenneth Armitage's L-shaped Screen in aluminium from 1991

Clare Libby

Theatre

A moral dilemma

There is never more ground through the mill of moral dilemmas, Claire Luckham's The Choice, revived at Richmond after success in the regions, is a raw study of pregnancy and the consequences of a positive amniocentesis test on one bumrump couple.

There is clinical rationale behind the test. Drawing the amniotic fluid from the womb during pregnancy to discover whether the baby will be born with Down's Syndrome, is scientifically progressive, socially responsible. But if you are the parents, you face ethical choices at every turn.

The test itself is a choice with deep psychological repercussions, if you decline it, what are you leaving to chance? By having the test, you are implying that you are prepared to choose abortion.

But by then, as Luckham's play makes painfully clear, you will have become prematurely attached to the baby through all the medical attention and the rehearsing of "what if?" scenarios.

The Writer features in the play too, in an exquisite performance by Jenny Hurrey. The story of Luckham's own 50-year-old brother who has Down's is told alongside Ray and Sal's - not to condemn, but encounter.

Dominic Hill's production is assured, dignified, carefully balancing the high emotions. There is one motif which marks fastidiously: the tired tinkle of cup-and-saucer in moments of extreme crisis.

At the Orange Tree Theatre until July 27 (0181 940 3633).

Theatre/Simon Reade

A neat exercise in dramatic confrontation

A beautiful young woman is washed up on the Cape Cod coast. She is scooped up by a budding writer, and laid out on the sofa of his home which overlooks the beach.

course. He continues to work as a librarian, although he is a writer - that essential American determination that you are what you say you want to be.

He offers her the chance to be herself, not what her family, or the people she meets hitching across the States, have pre-

sumed her to be. But she gets pregnant. "Our lives won't be as free and we'll be a bit more like everybody else."

They argue over her desire to have an abortion. They seem to resolve their differences - but at the same time, do not. "I've got to go back where I come

from, which is nowhere."

You may doubt the credibility of Don Nigro's Scenery with Sharks and Dancer but it is a neat exercise in dramatic confrontation.

to despondency. Lucinda Cowden is cute and obnoxious at the same time, a kooky stren with a sneer.

The production is impeccably directed by Paul Miller on

an exquisite design by Jackie Brooks. A wide sofa sits in front of handsome bleached wood shells, all against a marine-blue wall.

At the Southwark Playhouse until July 20 (0171 620 3494).

venue's own rough stripped boards, looking as if it is charred driftwood. This nifty theatre has just been awarded a £97,000 Lottery pay-out to expand within the Victorian brick warehouse it occupies on Southwark Bridge Road.

At the Southwark Playhouse until July 20 (0171 620 3494).

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION Rijksmuseum Tel: 31-20-6732121 ● Disegni. Die esouwen Italiaanse tekenkunst uit eigen bezit: exhibition featuring a selection of 80 drawings by Italian artists from the 15th to the 18th century.

ATLANTA

EXHIBITION High Museum of Art Tel: 1-404-733-4400 ● Rings: Five Passions in World Art: this exhibition, organised in conjunction with the Olympic Games, explores the power of art to evoke five universal emotions: love, anguish, awe, triumph and joy.

Kiss" and Henri Matisse's "Dance(II)"; to Sep 29 ● Of These I Sing: by Gerstlwin. Conducted by William Fred Scott and performed by the Atlanta Opera. The cast includes Paul Sorvino; 8pm; Jul 16, 19 (2pm)

BONN

EXHIBITION Kunst- und Ausstellungshalle der Bundesrepublik Deutschland Tel: 49-228-9171200 ● Wisdom and Compassion. The Sacred Art of Tibet: this exhibition focuses on the traditional themes of the art of Tibetan Buddhism and presents the important stylistic developments from the 9th to the 19th century.

COPENHAGEN

EXHIBITION Ny Carlsberg Glyptotek Tel: 45-33 41 81 41 ● Byzantium. Late Antique and Byzantine Art in Scandinavian Collections: this exhibition brings together more than 100 objects from Uppsala, Stockholm, Oslo, Helsinki, Copenhagen and Odense. The display includes late Roman imperial portraits, Coptic textiles and limestone reliefs, late Antique and Byzantine coins, pendants and manuscripts from the middle

Byzantine period, and loans from the late Byzantine era; to Aug 31

LONDON

CONCERT Wigmore Hall Tel: 44-171-9352141 ● Intriguing Sceneries: soprano Christine Schaffer, mezzo-soprano Stella Doufexis, baritone Finnur Bjarnason and pianist Graham Johnson perform works by Mendelssohn, Brahms, Wolf and Britten; 7.30pm; Jul 17

EXHIBITION Barbican Art Gallery Tel: 44-171-6384141 ● Eve Arnold: In Retrospect/Derek Jarman: A Portrait: two exhibitions shown at the same time. Eve Arnold: In Retrospect covers the life's work to date of photographer Eve Arnold, who for more than four decades has served as witness through camera and words to many of the leading figures and events of the latter half of the 20th century.

LOS ANGELES

CONCERT Hollywood Bowl Tel: 1-213-850-2000 ● The Los Angeles Philharmonic: with conductor Esa-Pekka Salonen perform works by Telemann, Kuhlau, Czerny, Doppler and Joplin. Soloists include pianist John Steele Ritter and flautists Jean-Pierre Rampal and Claude Armandy; 8.30pm; Jul 17

44-171-9388500 ● The Pre-Raphaelites and Early British Photography: this exhibition brings together drawings and watercolours by the Pre-Raphaelites and their followers, and work of such photographers as Francis Bedford, Lady Haverland and Julia Margaret Cameron; to Sep 29

MUNICH

DANCE Nationaltheater Tel: 49-89-21851920 ● Swan Lake: a choreography by Ray Barr after Petipa to music by Tchaikovsky, performed by the Bayerische Staatsballett München. Soloists include Natalia Troika and Kirill Melnikov. Part of the Münchner Opern-Festspiele; 7.30pm; Jul 17

NEW YORK

EXHIBITION Museum of the City of New York Tel: 1-212-534-1672 ● Gaelic Gotham: A History of The Irish in New York: exhibition featuring over 400 original artefacts that are displayed in thematic and chronological sections. Within each

the public to view this album in its entirety; to Jul 21 Norton Simon Museum of Art Tel: 1-818-449-6840 ● The New Wave: Bonnard, Toulouse-Lautrec and Vuillard and the French Color Print exhibition of 88 colour lithographs by the 19th century avant-garde painters/printmakers Pierre Bonnard, Henri Toulouse-Lautrec and Edouard Vuillard; to Jul 21

PARIS

EXHIBITION Fondation Cartier pour l'Art Contemporain Tel: 33-1 42 18 56 50 ● Comme un Oiseau: this exhibition explores the universe of birds as seen through human eyes, from some of man's earliest art to the most recent experiments in contemporary art; to Oct 13

ROTTERDAM

POP-MUSIC Feyenoord Stadion - De Kuip Tel: 31-10-4929400 ● The Eagles: performance by the American pop group; 6.15pm & 7.45pm; Jul 17

WASHINGTON

EXHIBITION National Gallery of Art Tel: 1-202-7374215 ● The Robert and Jane Meyerhoff Collection: 1945 to 1995: exhibition of some 190 works from this private collection of post-second world war art. The greatest strength of the Meyerhoff Collection lies in its concentration of works by Jasper Johns, Ellsworth Kelly, Roy Lichtenstein, Robert Rauschenberg and Frank Stella; to Jul 21

section, the exhibition focuses on themes important to the story of Irish New York life; to Oct 27

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17.30 Financial Times Business Tonight

08.30 Squawk Box

10.00 European Money Wheel

18.00 Financial Times Business Tonight

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COMMENT & ANALYSIS



Martin Wolf

# A clever spending wheeze

Government insistence that the private finance initiative will mean better value for money in public spending should be viewed with a healthy degree of scepticism

When Mr Norman Lamont, the then chancellor, launched the private finance initiative in November 1992, he described it as the most significant reform since privatisation. The idea was that the private sector would both provide and run public services, such as hospitals. In return for annual payments from the responsible department.

Others, however, have condemned the initiative as a clever swindle. The PFI could, they argue, be a cloak for off-budget increases in public spending. Alternatively, it may put a veil over the government's failure to invest. The government wishes to cut the share of public spending in gross domestic product, the ratio of public-sector borrowing to GDP and headline tax rates. But it does not want to be seen to abandon responsibility for public investment. The PFI is a brilliant solution. If it works, liabilities are displaced from current to future spending. If it fails, the government can blame the lack of investment on the private sector. Either way, it wins.

Yet if the PFI is indeed an accounting trick or a way to shuffle out of government responsibilities, the country will lose. There is a third possibility – the one the government insists upon. By improving incentives and the allocation of risk, the PFI could mean better value for money in public spending.

The proposition has a degree of plausibility. Privatisation of nationalised companies revealed previously unsuspected degrees of inefficiency. Huge cost reductions have been achieved, notably when privatised utilities were subjected to competition. This should also be possible in the provision and operation of public services. If such gains could be secured without collateral damage to either the public finances or the supply of economically justified public services, the case for the PFI would be overwhelming. Yet difficulties abound, inevitably so. Mr Douglas Hogg,

former chief executive of the private finance panel, responsible for promoting the PFI, explains why in a guide released last May (*Risk and Reward in PFI Contracts*). The initiative is, he writes, not "simply a matter of identifying individual risks and seeking to transfer them. PFI requires a total shift in mindset to see it as an opportunity to provide services, leaving the risk of ownership and operation of assets with the private sector. Easily said, it has proved hard to do."

The complaints of business, marshalled by the Confederation of British Industry in its document on the PFI (*Private skills in public services*) published last week, prove how right Mr Hogg was. The total of PFI contracts since its launch is only £5.4bn. Admittedly, £4.8bn of the total was agreed in 1995-96 alone. But £3bn was for the Channel tunnel rail link, a project of dubious value that benefits from £1.4bn in cash subsidy – £23 from each UK citizen.

Assume, however, that the PFI gains momentum, as the government hopes. Then, argues the Treasury in a reply at the end of June to a critical report from the Commons Treasury committee, it will bring big benefits:

● The initiative will force the private sector to bear overruns on capital costs, which have averaged 24 per cent on publicly funded construction projects. This would give a reduction of 7 per cent in life-time project costs.  
● If the effects turn out to be similar to those under contracting out, the PFI could generate reductions of 20 per cent in operating costs. This would reduce life-time project costs by 14 per cent.  
● The public sector will benefit from innovative private-sector ideas for the provision of public services.  
● These arguments have force. But consider the following objections.

First, by looking to the private sector to finance public projects, the government is losing the benefit of its position as the most creditworthy borrower. A report on the PFI published by Oxford Economic Research Associates (*Infrastructure in the UK: Public Projects and Private Money*) shows that the interest rate on debt issued to finance the Dartford Thames crossing and the second Severn crossing were 2.4 percentage points and 1.4 points, respectively, above the Treasury gilt rate in 1995. The greater the risk borne by the private sector, the higher

the premium will become. Second, the government may still not obtain the service in time or in the agreed manner. Andersen Consulting, for example, has renegotiated a contract to provide a new computerised National Insurance records system. It will now be supplied more slowly than initially agreed.

Third, if private enterprises can be forced to take the risks of cost overruns under the PFI, there is no reason why the same should not be true of conventional projects.

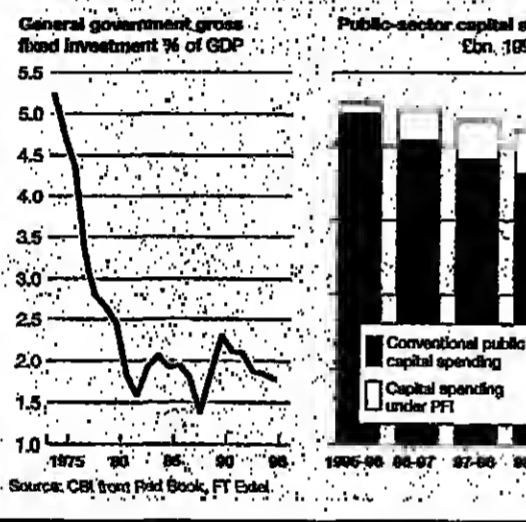
Fourth, public officials have had great difficulty in arranging the right incentives for time and cost completion of conventional projects. They are likely to find it just as hard to agree and monitor the still more complex contracts needed to govern the performance of long-term services.

Fifth, the pattern of public investment is likely to be skewed in favour of things that are relatively attractive for the private sector. Finally, because of commercial confidentiality, the detail of PFI bids and contracts must be secret. This alleged improvement in value for money may be hard to prove.

The efficiency gains of the PFI may ultimately be large. But these are birds in the bush. It seems overwhelmingly likely that the immediate aim of the PFI was to justify the decision to reduce public spending on infrastructure. This is fully consistent with the chancellor's latest forecasts for the real level of public capital spending. Even including the PFI, this shows a decline in the years to 1998-99. Meanwhile, the PFI's share in spending over that period is expected to be small.

This sluggishness may not be temporary. The government has declared its intention to agree £140n in deals by 1998-99. But public bodies can enter into such contracts only if they can be sure they will have the money to meet their future obligations. The DSS may be confident of its ability to pay for a computer system.

The decline of UK public investment



Source: CBI from PFI Book, FT Extra

Alice Rawsthorn on the digital effects makers who are the new stars of Hollywood

# From liquid metal man to flying cows

Rarely a day goes by in Hollywood without the news breaking of yet another actor clinching a multi-million dollar deal. But behind the scenes a new sort of movie star is emerging – the digital effects specialist.

Once dismissed as the indulgence of a handful of computer-crazed directors, digital technology is now a standard component of films and is responsible for such dazzling sequences as the flying cows in *Twister* and exploding White House in *Independence Day*.

Variety, the film industry magazine, recently estimated that the investment in visual effects for a \$70m-plus film has risen from \$5m five years ago to \$24m today. Effects budgets seem set to increase further in the future as film makers seek ever more elaborate spectacles.

The founding father of digital effects is George Lucas, who fled from Hollywood after a stellar career as the director of *Star Wars*, the third highest grossing movie of all time, to concentrate on his effects experiments at Industrial Light & Magic, the laboratory he set up at his ranch in San Rafael, northern California.

Lucas started off with conventional effects – "special effects" as they were called – using models and paintings. He then pioneered the use of computers to create digital replicas of film characters and visual spectacles, such as explosions and natural disasters.

ILM's first significant computer-generated effect was an alien liquid worm created for *The Abyss*, the 1989 film directed by James Cameron. Two years later it invented a more visually sophisticated liquid metal man for Cameron's next picture, *Terminator 2*.

However the digital effects landmark was *Jurassic Park*, the 1993 blockbuster directed by Steven Spielberg, which earned a special *Star Wars* award to become the second highest grossing film ever, partly because of the audience's fascination with the stunningly realistic dinosaurs

created by ILM's computers. *Jurassic Park* has spawned a series of effects-laden sci-fi films, including *StarGate*, *Waterworld* and *Independence Day*. Its success also encouraged film makers to apply digital effects to other types of films including *The Mask*, in which Jim Carrey's face metamorphoses and *Twister*, with its devastating typhoons.

Effects are also used for more pragmatic reasons. Directors use them to cut costs, as in the *Forrest Gump* anti-Vietnam War demonstration where 1,000 extras were digitally cloned into a 50,000-strong crowd, or to replicate stunts which would be too dangerous to stage in real life. One example is the helicopter pursuit of a high-speed train through the Channel tunnel in *Mission: Impossible*.

The explosion in demand for effects has created a new Hollywood growth industry, the effects labs that have sprung up in and around Los Angeles to rival ILM.

One of the most successful is Digital Domain, which was founded in 1993 by James Cameron as a joint venture with ILM, and now employs 425 people at its Venice Beach headquarters where a Jolly Roger flag flies from the roof. Other labs include Dream Quest Images, which digitally replicated the image of Brandon Lee, star of *The Crow*, after he

The studios are now taking business away from small labs, although the larger labs still win contracts for the most prestigious films

died before the film's completion, and Rhythm & Hues, the company behind *Babe's* talking animals and Eddie Murphy's obesity in *The Nutty Professor*. Movie studios, such as Warner and Sony, have set up their own effects labs which have intensified the competition for talent. Digital effects is such a new field that there are relatively few people with the necessary skills. Digital Domain offers \$150,000-plus salaries and share options to its top graphic artists, most of whom are in their mid-20s.

The studios are now taking business away from small labs, although the larger labs still win contracts for the most prestigious films, often at the directors' behest. Hollywood is imitative in many areas, as illustrated by the stream of disaster pictures set to follow *Twister*, but the most successful "effects films" tend to be innovative; hence directors prefer to shop around for the best effects, rather than using the studios' resources.

ILM is now devising even more realistic dinosaurs for the *The Lost World*, Steven Spielberg's *Jurassic Park* sequel, as well as preparing for George Lucas's new *Star Wars* film, *Digital Domain* is completing *The Fifth Element*, and James Cameron's *Titanic*.

However the hidden ace of the digital effects whizzes may well be their ability to become more than suppliers to the studios. ILM is already one of the world's most successful video games creators, and Digital Domain will launch a *Barbie* CD-ROM game in a joint venture with Mattel this autumn.

It then plans to diversify into movie production as Pixar, the electronic film company did with *Toy Story*. If its production plans come to fruition, Digital Domain will go a step further than the current crop of movie stars. Not only will it demand multi-million dollar fees, it will also compete directly against the Hollywood establishment as a digital studio.

# Less heat, more light on climate change

From time to time, Mobil joins in the discussion of issues affecting the global community. We hope, with this series, readers will find our views add an important perspective to the dialogue on the complex issue of global climate change.

No longer just talking about the weather, many governments are grappling with the possibility that human activities are enhancing nature's greenhouse effect, which might trigger significant changes in the global climate. Under the United Nations Framework Convention on Climate Change, countries are pressing for the stabilisation, and eventual reduction, of man-made greenhouse-gas emissions. Nations, including those in the EU, are gathered this month in Geneva for the Second Conference of Parties meeting. Negotiations will culminate late next year and could result in legally binding targets, timetables and common measures to reduce greenhouse-gas emissions. These deliberations are occurring in an environment where policy and politics may well outrun science and common sense.

As a major energy company, Mobil clearly has a stake in the outcome of these discussions. Fundamentally, though, the impact that those measures could have on jobs and livelihoods will impose extensive burdens on the global community.

The greenhouse effect is a natural phenomenon. Sunlight passes through the atmosphere and warms Earth's surface. Radiant heat is emitted back to the atmosphere; some of it is absorbed by greenhouse gases—water vapor, carbon dioxide (CO<sub>2</sub>) and methane—and reemitted back to Earth, causing further warming. This heat trapping is known as the greenhouse effect—an occurrence that makes our planet habitable. Naturally occurring greenhouse gases—predominantly water vapor—account for 95 to 97 percent of the current effect. The other 3 to 5 percent is attributable to man's activities. Although CO<sub>2</sub> is the predom-

inant emissions contributor, methane, in the short term, has 25 times the effect of CO<sub>2</sub>.

Worldwide, the burning of fossil fuels coupled with massive deforestation yields some 20 billion metric tons of CO<sub>2</sub> annually. About half these emissions wind up in the atmosphere. The rest is believed to be absorbed by increased plant growth and the oceans. We know little about this nonatmospheric absorption, which complicates decision-making. For example, how might plant growth and absorption by the ocean change with higher global temperatures? Moreover, greenhouse-gas emissions, which have a warming effect, are offset by another combustion product—particulates—which leads to cooling.

One thing we do know is that greenhouse gases reside in the atmosphere for long periods of time and are dispersed over the entire globe. That means their potential impact on climate should be viewed cumulatively rather than on the output from any one country or in any one year. The concentration of greenhouse gases is building up slowly—less than 0.5 percent annually for CO<sub>2</sub>—and that gives us time to implement effective mitigation measures.

The industrialised countries and the developing world contribute about equally to present-day CO<sub>2</sub> emissions, but the pattern is shifting rapidly, as the peoples of Africa, Asia and Latin America seek to better their lives. The developing nations argue that the industrialised world has no right to impose its environmental rules on them, possibly short-circuiting their industrial revolution, without compensation or dispensations.

This raises thorny social and economic issues. A number of the scientists believe we have the time and the resources to avert a crisis. Policy makers would be wise to amend the maxim, "think globally, act locally," and put the emphasis on *global* action.

Tomorrow... what we don't know can hurt us.

Mobil

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171 873 5338 (please refer to "fax"), e-mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

### Right way to increase pay of UK MPs

*From Mr James Maugham.* Sir, My school economics textbook taught me to expect the cost of haircuts to rise faster than inflation, because this profession has a constant production function (a barber cannot use new technology to cut more heads in a day). To keep pace with industries where productivity improvements permit inflation-plus rises, the price of haircuts must rise above inflation. MPs, like barbers, cannot affect their productivity and give two speeches at the same time. It is only right that an independent body re-rates MPs' pay according to the difficulty of job content.

Having just left Insead, a French business school, where the average age and starting salary of graduates is 28 years and £50,800 respectively, British MPs' former salary of £34,000 seems niggardly, and unlikely to attract any such graduate. It seems strange that William Hague, the Welsh secretary who left Insead 10 years ago, earns less than an alumnae of 1995.

James Maugham, 148 Sutherland Avenue, London W9 1ES, UK

### Blairism good for Czech Republic

*From Dr Jaromir Sedlak.* Sir, In his article "The fiscal trap for Labour" (July 9), Martin Wolf is probably right that Tony Blair's manifesto is not able to offer "a great period of above-trend growth" and a radical solution for "long-term and youth unemployment". But it should be taken into account that if the Labour party wishes to win the next election it cannot go too far. What is heartening in the Labour party's manifesto is that it allows a deeper dialogue not only in the UK but also in the post-communist countries. Mr Blair is now changing his party. I hope that after the election he will change also his country, because he has a better philosophical approach – "The individual does best

within a strong and united society, where... success depends... on working together". Mr Wolf uses the term "gross domestic product" as a criterion as to whether Blairism will be a success. In his article "Better ways to measure progress" (October 2, 1995), Michael Prowse, discussing the World Bank report *Measuring environmental progress*, stated: "We have to move beyond GDP." President Clinton expressed the same view during the last G-7 summit in France. According to Czech opinion polls, fighting crime is more important for people than increasing our GDP. I agree with the Labour party's manifesto when it says:

"Tough on crime and tough on the causes of crime is more than a slogan. It is a different philosophical approach. We cannot excuse crime, but we should try and tackle where and how it breeds". We Czechs feel a system which was mortally ill and I am glad that we got rid of it. But more and more Czechs are aware that contemporary capitalism is seriously sick. I do not think that Mr Blair is a new Robin Hood, but there is certainly no apparent alternative to Blairism, not only in the UK, but also in the Czech Republic.

Jaromir Sedlak, Kerruz 64, 120 00 Prague 2, Czech Republic

### Proposed BBC changes need public debate

*From Mr Johnny Wilkinson.* Sir, The letter from Colin Browne, director of corporate affairs BBC (July 12/14) refers to "the internal reorganisation we announced last month...". Just what does this mean by "we"? Mr Birt's latest proposals are some of the most far-reaching changes affecting the work of programme staff in the history of the BBC. Yet there was no prior consultation with programme staff, Mr Birt's senior management

colleagues, the BBC Broadcasting Councils for Scotland, Wales and Northern Ireland, the various BBC advisory committees or the licence-payers. The BBC governors have failed in their responsibility to ensure that Mr Birt's proposals have been subjected to scrutiny and debate. Your editorial on July 9 ("Birt's choice") was right. The questions facing the BBC are far deeper than the appalling

decision to integrate the World Service with the rest of the BBC. The chairman and the governors should insist on a public debate before accepting the recommendations of one man.

Johnny Wilkinson, (Director of Public Affairs, BBC 1980-85), Compass Cottage, Box, Minchinhampton, Nr Stroud, Gloucestershire GL6 9HD, UK

### Virgin/Delta codeshare recognised as being competitive

*From Mr Richard Branson.* Sir, I am sure Delta Air Lines is more than able to answer for itself the charges levelled by Timothy Doke, managing director of American Airlines (Letters, July 13/14). I would, however, like to clarify a few points raised by Mr Doke. The first is the suggestion that there is any resemblance at all between the codeshare arrangement which Delta has with Virgin Atlantic and the proposed merger between American and British Airways. Delta buys blocks of seats from Virgin and sells them in its own right in competition with Virgin, on routes which previously Delta was unable to serve. Unlike BA and American, we have not sought exemption from the

competition laws in order to collude in the fixing of prices. The US and UK governments recognised when approving the Delta/Virgin codeshare that the arrangement would increase competition in the marketplace. This is quite different from the BA/American deal, which will create a massive monopoly able to force smaller airlines out of business. Mr Doke says that BA and American will provide "more choice for customers". Not true. Not one additional routing will be available as a result of the merger. He says that there will be "more competition". Since when did the removal of a leading competitor lead to more competition? The reality is that competition will be

reduced, fares will rise and service quality will fall. Mr Doke argues that the merger will provide a strong incentive to liberalise the bilateral air services agreement. Why should these two issues be linked? If liberalisation is in the consumer's interest, let's do it (and do it properly – with plenty of slots made available to stimulate real competition). Why should BA and American drive government policy? Finally, Mr Doke says that Delta and Virgin are opposing the BA/American merger in order to avoid competition. American Airlines really must be getting desperate to sink to such arguments. Does anyone really think that an airline such as Virgin Atlantic is

afraid of competition? Virgin has come from nothing in just over a decade ago, against enormous and at times unfair opposition, to become one of the most successful, most highly regarded and, for its size, most profitable carriers in the world. Mr Doke's suggestion is an insult to the public's intelligence. It is BA and American that have a history of trying to restrict competition and behaving in an anti-competitive way, which is yet another good reason to stop this merger.

Richard Branson, chairman, Virgin Atlantic Airways, Ashdown House, High Street, Crawley, West Sussex RH10 1BQ, UK

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Tuesday July 16 1996

Agreeing to debt relief

The Paris Club of official creditors is rarely in the limelight. This week's meeting is an exception. The officials have to discuss their contribution to the initiative on the debt of highly indebted poor countries...

the Paris Club are the dominant shareholders of the World Bank and IMF, the debate is partly about which of their pockets the money will come from. But the more of its resources the Bank uses, the less it will have for other borrowers...

German boards

With thoroughly teutonic deliberation, proposals to tackle shortcomings in the law covering German companies are grinding through the Bonn government machine. As far as they go, the ideas being considered in the justice ministry...

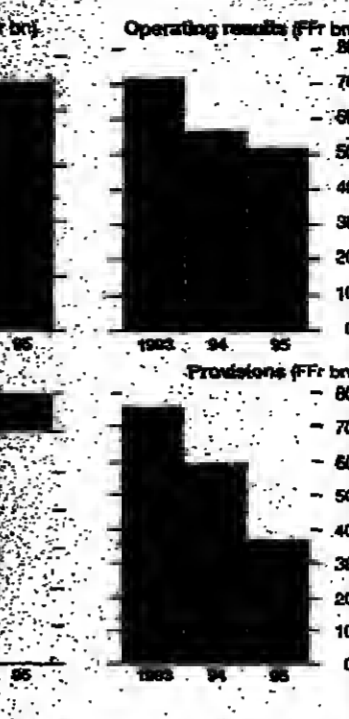
proposes a number of measures to strengthen oversight by supervisory boards and to encourage companies to pay greater attention to shareholder value. A stronger role for the supervisory board seems overdue. More than one of the recent corporate collapses could probably have been averted had the Aufsichtsrat been paying proper attention...

England alone

The news that rugby union's Five Nations Championship risks becoming the Four Nations, after the scrumless departure of the England team into the embrace of Mr Rupert Murdoch, sets a worrying precedent. It is, indeed, as a writer in the Times suggested yesterday, a drama in which "the greedy kill-joys are at the gate, the mood of the Philistine is upon us"...

posed to members of bands that have fallen apart. This week's British Top 10 is led by Gary Barlow, once a mainstay of Take That. The band's first defector, Robbie Williams, is also attempting a solo career. Still, musicians need merely an endless supply of hysterically screaming teenagers...

French banks: urgent need for reform



Jean-Claude Trichet, governor, Bank of France; Francois Henrot, chairman, Credit du Nord

A mutual antagonism

France's commercial bankers complain that they face unfair competition from mutuals and savings banks, says Andrew Jack

Like most central bankers, Mr Jean-Claude Trichet, governor of the Bank of France, is guarded even in private remarks. So his public call last week for "an end to the competitive distortions" in the French banking market is a sign that concern about the sector's future has reached the highest levels...

the country's commercial banks. "For the second year since the second world war, banking revenues fell in absolute terms." The total net income for his members crept back up to a modest FF2bn for 1995 after three years of losses, including a record deficit of FF11bn for 1994. But most of the recovery was due to a sharp fall in provisions against bad loans rather than any growth in the profitability of the underlying business...

However, some banks such as Banque Nationale de Paris have been able to cut costs through agreements with unions to reduce working hours while gradually shedding staff. Credit Lyonnais recently announced 5,000 new job losses from its workforce of 35,000 by the end of 1996. And Mr Philippe Marini, deputy chairman of the French Senate finance commission, says complaints by commercial banks about unfair competition smack of "self-justification". He warns that calling into question the "dynamism" of the mutuals risks killing "the goose that laid the golden egg"...

through all banks. This spring, it introduced a rival to the Livret A for young people which all banks can offer. Senior civil servants are now discussing changes to the rules for holding notaries' deposits, as well as considering ways to force mutual banks to set targets for return on equity. Mr Trichet's comments suggest there is high-level support for such reforms. The mutual sector, sensing a threat, is reasserting its claim to be an important contributor to French welfare. Last week Credit Agricole announced a FF400m aid package to farmers suffering from the crisis over BSE, or mad cow disease. Caisse d'Epargne said recently it planned to distribute some of its profits to worthy causes as a "social dividend"...

debates regulatory changes, market forces are already causing a shake-up in the financial sector. Foreign banks are circling some of the more profitable French institutions: Sovac, the specialist credit group, was bought by General Electric of the US last year, for instance. French banks, meanwhile, discouraged by the gloomy domestic market, are themselves looking abroad. Credit Agricole is diversifying internationally and into investment banking by acquiring control of Banque Indosuez from Paribas. And Credit Local de France, the public-sector lender, is forming an alliance with Credit Communal de Belgique, a Belgian counterpart, which is likely to lead to a merger. As Mr Trichet said at the end of last week, the primary responsibility for improving profitability of the French banking sector lies with the commercial banks themselves. In the present climate, that can only mean further cost-cutting and a closer look at mergers.

OBSERVER

Send in the marines

It has taken Ricardo Perez Casado barely three months to decide he is not the man to run the divided Basque city of Mostar. These former mayor of Valencia always looked like a choice for one of the toughest and most dangerous foreign policy jobs in the European Union. His predecessor Hans Koschnik, six-mayor of Bremen, stuck it out for more than 18 months, despite receiving a rocket-propelled grenade through his window. When Koschnik finally called it quits, someone thought it was a good idea to give the Spanish a shot at a high-profile external affairs job - even more so because Britain and France had cut Spain out of the diplomatic action on former Yugoslavia when they created the Contact Group along with Germany, Russia and the US. Perez Casado was criticised by both Great and Lesser Britain at council meetings for being present at crucial moments, but his chief achievement was to organise elections last month to unify Mostar. The polls were seen as a test-run for country-wide elections in mid-September, but may simply cement his position. The biggest challenge for his successor is to stop this happening. On which note, it is encouraging that Perez Casado's replacement is Sir Martin Garrod, formerly his chief of staff and a one-time head of the British Marine Corps. Garrod knows all about the difficulties of bringing Mostar's Croat and Muslim communities together - fortunate, as the town will probably remain under civilian administration of the EU for another six months.

Atlantik waves

A sad end to an unusual meeting of minds that led in 1983 to the creation of one of the Czech Republic's largest stockbrokers. Michael Hobbs, one of three founding partners of Brno-based Atlantik Financial Markets, an independent firm popular with foreign fund managers, has departed following a dispute over "management style". A 36-year-old American, Hobbs taught finance and economics to his yet younger partners, Daniel Glavin and Karl Rastl, both Czechs, at Masaryk University in Brno in the early 1990s. Their classroom meeting coincided with the start of mass privatisation and led them to start Atlantik. Hobbs - who was relieved of his responsibilities at a shareholder meeting held when he was abroad - says he left because of "unwarranted actions" by Glavin and Rastl. The teacher/student relationship, he adds, had been a problem. His pupils may have resented the extent to which Hobbs kept the gladhanding of clients to himself. The three own an equal share in Atlantik and Hobbs says he has "no plans at this point" to sell his stake separately. Outside investors have been sitting around since the spring - perhaps the row will hurry things up.

Solly's sally

Salomon Brothers was taking no chances yesterday. Newly installed in expensive offices at the foot of Frankfurt's 36-storey Eurotower, the US investment bank was careful to say nothing that could alienate its neighbour at the top - the European Monetary Institute. Despite the scepticism of Anglo-Saxon clients and colleagues, Daniel Lee, head of Salomon's German operation, said he expected monetary union to happen. "It'll make a bet. I would say it will happen - and on time." That message January 1 1999, a date towards which Salomon's upstairs neighbours are working feverishly, Lee is impressed by the political will behind EMU. At the same time, he warned that should EMU be delayed a while, foreign funds would flock into Germany and send the D-Mark and European interest rates sky high. Lee - drawing on long experience in Germany as an army officer and banker - proffered an equally discouraging scenario for the allegedly British. "If the UK does not take part in currency union, this will be a huge disadvantage for London and a big advantage for Frankfurt". EMU ears must have glowed pleasantly.

Prodi's problem?

Time for some Italian ministers to rethink state visits to Washington and family holidays in Disneyland, according to Il Sole 24 Ore, the Italian business daily. It warned at the weekend that a strict interpretation of US legislation against investment in Cuba could lead to US borders being closed to government officials and their families. The problem is that Stet, the state-controlled Italian telecoms company, has an arms-length investment in a Cuban telecoms operator. Stet is controlled by IRI, the state holding company, which is in turn owned by the Italian treasury. White House sources told Il Sole that the link might lead to Romano Prodi, Italy's new prime minister, or Carlo Azeglio Ciampi, the treasury minister, being "treated in the same way as the Cuban president, Fidel Castro" should they cross the US border. The Italian ambassador in DC has ruled out any such threat, but putting Prodi and Ciampi in the same immigration queue as Castro would have a certain rough justice: Italy's centre-left government does, after all, rely on hammer-and-sickle Marxists of the old school for its parliamentary majority.

100 years ago

The Motor Carriage Industry The Hon. J.H.H. Berkeley, Chairman of the Board of the Britannia Motor Carriage Company, proposing the toast "Success to the Motor Carriage Industry", said he would like to dispel a few misapprehensions which had arisen with regard to the Britannia motors, and to reply to some criticisms that had been made about them. The most serious point on which they had been taken to task was that they did not at the outset mention the power by which the motor was driven. He would point out that they had issued with the prospectus a detailed drawing of the carriage and the motor. They thought it was evident from the drawing that the motor could only be driven by electricity.

50 years ago

Burmese Currency Separation The House of Commons will debate to-morrow an Order issued last month providing for the separation of the Burmese currency from the Indian currency. Under this Order the Reserve Bank of India ceases to manage the currency of Burma. The Governor now has full power to issue currency. The notes of the Reserve Bank of India, with the exception of the 1,000 and 10,000 rupee notes, will remain legal tender.

Welcome to the heart of London. Radisson Edwardian

FINANCIAL TIMES Tuesday July 16 1996

Fountain Forestry SERVICES FOR PRIVATE AND CORPORATE LANDOWNERS, UTILITIES, LOCAL AUTHORITIES

Germany draws up law to allow share buybacks

The German government is drawing up legislation to allow publicly quoted companies to buy back up to 10 per cent of their capital and to ease the way for companies to reward senior executives with stock options.

of German companies after recent corporate scandals, such as the bankruptcy of the Bremer Vulkan shipbuilding group and the financial difficulties of the KHD engineering group.

back up to 10 per cent of their capital will bring Germany into line with European Union rules. It will also give the bill a sharper focus after the working group rejected proposals for far-reaching restrictions on the banks' influence over business.

Jobless levels to stay high, says OECD

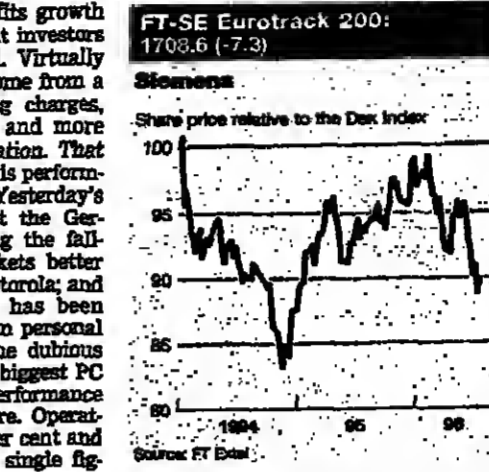
Unemployment in the world's main industrialised countries will remain high for at least the next two years, the Organisation for Economic Co-operation and Development forecasts.

The study is critical of the US and the UK, countries where it says there has been a "persistent and large rise in earnings inequality" due to "substantial labour and product market reforms" over the past 10 years.

place in Londonderry of Dermot McShane, a Catholic man who died in riots in the city on Friday. Community leaders said they were cautiously optimistic that a decrease in violence on Sunday might suggest that the level of violence may be easing.

Both governments are likely to focus efforts on keeping the talks going, with little sign of practical progress.

Solid Siemens



Siemens is trumpeting profits growth of 20 per cent this year, but investors should not get too excited. Virtually all the improvement will come from a huge drop in restructuring charges, lower pension provisions and more favourable currency translation.

but the changes are hardly revolutionary. BAT still needs either to concentrate more on existing strengths or to develop through acquisition.

UK opposition attacks Tory stance on Ulster marches

By John Kemptner in London and John Murray Brown in Belfast

The bipartisan approach of the leading British political parties to the Northern Ireland problem was stretched to the limits last night.



Sir Patrick Mayhew addressing politicians in the Commons yesterday

"There is considerable strain in our relations which won't be helped if they don't move quickly," a senior Labour MP said yesterday.

Opposition criticism of the government's handling of the crisis was compounded when Sir Patrick Mayhew, the British minister responsible for Northern Ireland, gave only sketchy details of a review of policing of sectarian marches.

Labour officials said they expected ministers to make more vigorous attempts to calm the nationalist community in Northern Ireland following the police's decision to allow Orangemen to march past a Catholic estate last Thursday.

But Mr John Major, the UK prime minister, made an impassioned plea to Unionist and nationalist politicians to put the "bad week behind us" and con-

tinues the search for peace. He said: "This will not be the only setback. Something will happen again that will upset one community or the other, that I can firmly be certain of but if it does, then we will try again."

Officials said the interception may have foiled a new round of potentially devastating bombs in Britain, with targets believed to include huge gas, electricity and water installations and transport intersections.

With tension still high in the province, police kept watch from side streets as the funeral took

UK accounting

Few authors have popularised the arcane world of accounting as successfully as Mr Terry Smith, UBS's former head of UK research. Back in 1992, his notorious "job guide" identified a dozen uses to inflate reported profits and named the companies which employed them most.

Investment bankers

Is luring an investment banker from a rival firm poaching? Or is it merely the operation of the free market? It rather depends on one's perspective.

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FT WEATHER GUIDE Europe today High pressure over the British Isles will bring sunny conditions to most of north-western Europe. Five-day forecast High pressure over the North Sea will gradually move eastwards.

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